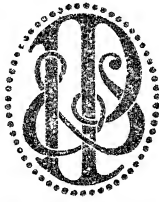


BOOK-KEEPING AND OFFICE WORK

A COMPREHENSIVE AND UP-TO-DATE WORK ON
MODERN OFFICE DUTIES, INCLUDING BOOK-KEEPING

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In Two Volumes

VOLUME I

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PREFACE

“**K**NOWLEDGE is power” said the celebrated philosopher and writer, Bacon. It was a powerful utterance, a brilliant flash of intuition. The assertion has lost none of its force since that time; it has, on the contrary, gathered strength. It enunciated a vital truth, which the present generation can even better appreciate. The statement is of overwhelming significance for the office worker, owing to the keen competition for the better-paid posts.

The demand of the modern business house is for efficient workers. Knowledge is the key to such efficiency. He who would do things must first learn how. Knowledge is the stepping-stone to success, for the man who knows is the man always in demand.

The task of acquiring the necessary knowledge is a long and tedious one, if the office worker essays it by himself or herself; but if he or she makes good use of a book like the present, the task will be immensely simplified.

In the following pages will be found a wide and exhaustive range of suitable information, collected, arranged, and presented with all the skill that a long experience can give. It is hoped that the reading matter will prove attractive, interesting, and illuminating; that the illustrations in their richness and fullness, yet simplicity and clearness, will leave a lasting impression on the memory. A graduated course of business book-keeping based throughout on sound double-entry principles, with examples worked by the best methods as approved by the general opinion and practice of the accountancy world, will, it is believed, still further enhance the value of the book.

Not only does the modern business house demand efficiency, but it also demands efficiency with economy. For this purpose it has adopted machines and appliances that will do the old work, and indeed very much more of it, in a better and quicker way. The office worker who wishes to be considered efficient must therefore make himself or herself acquainted with the up-to-date inventions that are fast revolutionizing the routine of the office and counting-house. In the following pages will be found illustrations of the principal machines and appliances, together with short particulars of their use. The advantage of being able from this book to obtain a serviceable knowledge of such inventions will, it is thought, be an added incentive to its use, as it will appeal specially to those who wish to know and would like to investigate, but whose time is limited and whose opportunities are few.

Most young office workers are full of longings and aspirations for a higher and more important position, and it is the aim of this book to assist such laudable ambition. That such aspirations may be fulfilled, and that this present work may contribute to such fulfilment, is the sincere wish of the author.

R. J. PORTERS

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BOOK-KEEPING AND OFFICE WORK

CHAPTER I INTRODUCTION

IN days gone by the task of recording the various transactions made by a trader was often relegated to the darkest corner of the shop or factory, but to-day the office is the nerve centre of a modern business, and book-keeping is its memory. The man whose nerves are tangled and disorderly, and whose memory is defective and unreliable, is a good illustration of the business that has a badly managed office and a faulty method of accountancy.

It is sometimes said that the office is the brain of the business, but this may be carrying metaphor a little too far. It is not wise of us to think of the brains of a business in an impersonal way, for in these days when powers of control are often decentralized, and there is need for original work and initiative in more than one centre, it is sound sense to realize personal creative leadership beneath all system; and also to uphold and maintain every kind of system that encourages personal responsibility and enterprise all along the line.

The approved plan in business nowadays may be to bring the creative and originating minds as near to the centre as possible; but simultaneously there is a growing habit of developing the personal characteristics of each so that he shall put a little of himself into his work. Hence it is wise to think of the office as a nerve centre—a kind of telephone exchange, a clearing house, a place of record and an intelligence department.

The office should be the co-ordinating station, where all the different activities are brought into a compact and harmonious whole. It should be the translation department where all expressions should be transferred into pounds, shillings, and pence values, not because these are the only values in business, but because these are the convenient measure by which success and failure can be judged, proper enterprise valued, and proper checks imposed.

Essential Qualities of an Office

An office and its organization should be suitable to the business for which it functions.

This suitability should decide the size of the staff, the capacity of the staff, the method of accountancy and government, and the number and kinds of appliances used.

Simplicity should always be the keynote of organization, and at all times there should be a reasonable willingness to adapt the method of working to the prevailing conditions.

In this volume it is only proper that the methods suitable for a very large and very complex business should be described among others. But it does not at all follow that because one firm requires a system with a great number of departments and special operations, that this is necessary everywhere.

In a chapter that follows, which deals with the broad principle of double entry book-keeping, it is explained how the man who has only a few dozen transactions in a month can easily and properly keep his accounts.

In precisely the same way the very small business can be conducted on quite as orderly a method and be as businesslike as the large one, and yet be able to dispense with many of its appliances and special workers.

In order to make this quite clear let us deal with business from the point of view of office appliances. These, and their uses, are explained later.

Let us take a case to illustrate—

Mr. Brown, starting in business, decides to model his office on that of Smith, Sons & Co., Ltd. Smiths use a Franking machine for their letters, because the post numbers thousands of documents every week.

Mr. Brown's letters for a week rarely exceed thirty, an average of five a day.

For Mr. Brown to buy a Franking machine would not be businesslike—it would be idiotic. A man who cannot himself, or through his clerk, stick on five or six stamps a day, is not fit to be in charge of a business.

Again—

Smith, Sons & Co., Ltd., have twenty different groups of indexes, as their mail order

department is very large, and they have over a dozen special mailing lists for as many different purposes.

Mr. Brown, on the other hand, has only twelve customers all told, and only three supplying firms. The total number of persons with whom he corresponds or is in regular touch does not exceed fifty.

Plainly, until things change, one card index, possibly contained in a single drawer, will suffice his requirements.

Again, the great firm has a separate Sales Ledger for every letter of the alphabet as well as Bought Ledgers and Impersonal Ledgers.

An imposing row of thirty Ledgers would be a foolish purchase for Mr. Brown.

The above points are so obvious that they would scarcely seem to require statement. But, this is not the case. There are many trading concerns, in which an unnecessary burden of expense or labour is accepted, because the equipment and plan are not in proportion to the business done.

It is not suggested here that the plan for the small office must omit a single needed arrangement. Right away from its start every system should be such as to form a sound foundation for the future, however great the business may become.

But a sense of proportion can be maintained all the same.

The functions of the invoice clerk and the ledger clerk are different, and in the big business one man may be separated from the other by five or ten years service.

But in the small business, the same person may easily double the parts in a single afternoon, between times when he is cashier, stock-orderer, traveller, interviewer, buyer, and keeper of the petty cash.

To illustrate: there is a difference between debiting a customer with goods sold, and debiting a supplying firm with empties returned.

A large business may originate the transactions, not only in different books but in different departments.

But a small business need not jumble them up together under the plea that they are both debits. They may be originated in the same book. They may even be originated on the same page, but where the need is warranted they may be added in different columns or the debits to supplying firms be marked in some special manner, such as being extended in red ink.

In the small business there is usually a greater

need for adaptation and "make-shift" than in a large one. But when the sound principle is fully grasped this only means a common sense application of a principle, not careless indifference to it.

Suiting the system to the circumstances is a great time and power saver. A 10-ton hammer to crack nuts is not economical.

"I have the finest office system in London," said a young merchant recently, "but I make no profit, and my capital is shrinking. What shall I do?"

"Scrap your system and keep your accounts in your pocket book" advised a friend bluntly. "Playing noughts and crosses with card indexes and filing cabinets is not half as sensible a use of time as doing business somehow and keeping records anyhow."

A sweeping statement. But there was sound sense in it!

A clerk employed in an office has usually a prepared and tested system to go upon. In dealing with management, clerkship carries out the instructions of the manager; equally in accountancy it has book-keeping rules or the requirements of the auditor.

But cases sometimes happen where, within limits, the man in the office has powers to shape some part of the plan, and discretionary authority in carrying it out.

It is always well when this is the case, for the fact to be clearly realized, that the system is the servant and not the master of the business.

That is to say, the policy of the business should be considered first, and the office method should be the expression of that policy, and should be so adaptable as never to clash with it.

A case occurred some time ago in which two firms had regular dealings with each other running into many hundreds of pounds per annum.

Bestwater & Co. sent Tremblett Brothers, Ltd., about £250 to pay for three months' goods. There came back a receipt and a polite note to the effect that 5s. 3d. had been wrongfully deducted, the allowance, which was in order, having been already made on the previous quarter's settlement.

Bestwater & Co. wrote admitting the error, and expressing regret and added: "As we have just taken stock and balanced our books, we shall be glad if you will send us a new debit note for this 5s. 3d. which we will include in our next payment."

By return the cashier of Tremblett Brothers

wrote to explain that "our system does not permit of this, and we shall be glad of your cheque by return as without it we cannot balance our accounts."

The junior partner of Bestwater & Co. was indignant, and spoke of closing the account. But the senior partner asked for the letter and stepped across to Tremblett's with it.

He was introduced to the writer, a splendid accountant, by the way, and a new arrival, with honours in accountancy behind him. He spoke proudly of his system.

"My young friend," said old Mr. Bestwater, "I have been over fifty years in business, and have seen many office systems, and admit that the new ones are generally better than the old."

"But you may take it from me that any office system that does not express the attitude of the firm it serves, is faulty somewhere. The heads of your business who made it as solid and honoured as it is to-day, never made it so by becoming slaves to a particular form of ledger-ruling in dealing with a five and threepenny balance. And if they take my advice they won't begin now."

This may seem a trivial point, but it is really very important. Accounts, appliances, rules and regulations are servants. The moment they become masters, they are dangerous.

We expect red-tape from Government departments, and must accept it willy-nilly.

The business world dislikes red-tape, and need not accept it.

Generally it does not.

But while the business method should always be regarded as a servant, proper respect must be paid to the unvarying laws that affect business. A man may be master of his commercial method and do as he likes with it, but he is not autocrat of the multiplication table. He cannot make two and two add to five.

Equally he dares not disregard the national and international laws affecting commerce. A man in business need not be a lawyer, but he must be master of those points of the law that affect his own calling.

If he is a manufacturer he must know all about the age at which he can employ young people, and the conditions under which they may work.

If he is a shopkeeper, he should know the rules applicable to early closing.

If his business is a limited company, he should have a grasp of the requirements of the Acts in relation to official returns.

If he deals in goods held in Bonded Warehouses and dutiable, he should have a good acquaintance with the various Acts defining his obligations.

All these laws have their reactions upon the office. It may be that quite early in his career the office worker will have many varying duties. To state a few of them: he may have to deal with a consignment of silk from France; to explain to the new typing assistant how she shall obtain her insurance card; to discover the postage rate of a parcel for Rio de Janeiro; to refund 17s. to a customer who is retiring from business and who has returned empty packages, explaining to him that his usual trade discount of 15 per cent must be deducted from the 17s.; and to make some incorrigible columns of figures conform with the irrefutable laws of arithmetic.

It may seem difficult for an office system, which must conform to so many outside rules and regulations, to retain any elasticity or resilience in itself.

Yet this miracle can happen, and the important fact remains that the office must also be suitable to act as shock absorber to a yet more pressing sequence of blows. It must not only present to the army of customers the commercial expectations, hopes, and endeavours of the firm, but reflect its courtesy and accommodating earnestness as well.

The modern office requires a man of many parts; for he has many duties to perform. But in most cases the real trouble from which the office worker suffers, is not that he is expected to learn his duties at too rapid a rate, but that he passes through the numerous stages too slowly.

Office Work as a Career

In a book of this description it is proper that the ambitious man should be recognized, and that the case for office work, as a career in itself, or as an entry to other duties, should be, fairly presented.

The young man who enters an office either wishes to succeed, or should have such an ambition. His natural first thought will be "Where does this office work lead me?"

The best reply is that the office constitutes one of the principal avenues, if not the principal avenue, of entrance to the best commercial careers.

Salesmanship is another avenue, and in the retail business a man may pass from shop

learner to proprietorship of a large concern without much experience of actual office work. But in the wholesale trade this is rather more unusual, as many large firms select their travellers from members of the office staff.

In this book it is recognized that there are stages at which, for various reasons, the ambitious man may leave the office for some other occupation.

But whatever line he may follow, it nearly always happens that the office experience is of the utmost value to him.

A traveller may not be a better salesman because he has had three or four years at the office desk; but he will almost certainly be able to do his work in a way that gains support from the office workers, and that fits in better with the general scheme and scope of the business.

In the same way, the clerk may become a buyer. Office experience here will enable him to link up his buying with the other activities of the business, and to make a fuller use of the organized machinery behind him than would otherwise be the case.

But chiefly in this volume we deal with office work and book-keeping, not as preliminary steps in some other career (though undoubtedly they are that), but as a continuous series of tasks and methods in the mastery of which a man can qualify himself for one of the highest positions in commerce.

There are at the present time at the head of many large business houses, and leading directors on important boards, many men who have reached their position through adhering rigorously to office work and book-keeping.

To some temperaments "the road" may offer a quicker opportunity; to others the attractions of the mart and the exchange indicate a way of progress; others again must back their ability in buying and selling at the earliest moment they can do so; while yet others follow the chances of advertisement.

But the office still offers its opportunities, and to the man with the right temperament, these are endless.

The Chief Peril of Office Work

The chief danger of office work as an entry to a business career lies in its automatic and orderly nature.

Nearly always the beginner enters an office where everything is in full swing; where there is a precise, well-defined manner of dealing

with every task, and order and system are pre-eminent.

To the unimaginative mind this fact may entirely cloak the real nature of commerce.

Business, from end to end, is human nature, and the fact that long experience has enabled business men to classify commercial activities and harness them under rules, does not change the original basis on which all business is built.

Somewhere in every well-centrived commercial establishment there is still the all important centre of psychological activity and purely human strategy.

In the retail business this may be at the shop counter.

In the manufacturing business it may have several points of action: (1) the advertising department; (2) the salesmanship campaign; (3) the office of the works manager where he discusses hours and wages with the "Head of the Chapel" or the local union official; (4) the bank parlour where the proprietor discusses overdrafts with the bank manager.

In the merchant's business it may be in any one of these places, or it may be the explanation of the chief partner's fitfulness of temper or spasmodic irregularity in taking his business journeys.

In the well conducted business the office usually goes on smoothly and evenly in spite of all these facts. In consequence, the unobservant follower of rule and tradition may reason, "Business consists in making certain entries and in writing certain letters, and all according to a definite plan."

But this misses the point, and the clerk who reasons in this way runs a serious risk of becoming as automatic as any office appliance he manipulates.

With this danger is coupled another: the danger of performing many acts without understanding them.

A day book and invoice clerk new at his work recently expressed wonder as to why the day books should be totalled.

"It seems such a waste of time," he said. "We post all the separate entries to the Ledger. Why do we total the books?"

The other clerk who had been on the work for three years "explained" why.

"Because it is the office rule," he said. "We are not here to ask the 'why?' and 'where-for?' We are here to do it exactly as it has always been done."

"Because it is the rule of the office" is a

sound reply up to a point, and the beginner cannot do better at first than apply it.

But he should not long remain satisfied, for he owes it to himself, if not to the firm, to find out the reason for every customary action.

Of course, in the case cited, the rule has to do with book-keeping, and is part of the modern application of double-entry methods. The junior carrying out such a rule might reasonably remain in ignorance of its meaning for twenty-four hours. But it is doubtful if he has any right to remain ignorant for a week.

In this connection, it is admitted that there are often occasions when the head of a firm may desire certain figures to be abstracted without intimating a reason, and to search for such a reason may be improper curiosity.

But this would not apply to an obvious act, persistently carried out, year after year, and, from its nature, clearly related to book-keeping rules.

Here the plain duty of the learners would be to search for the explanation not in the special instructions of the office, but in any ordinary textbook on accountancy.

Understanding office routine is almost an essential to promotion.

It is always a good plan for the office worker to let his knowledge of business routine be well ahead of his practical work.

This knowledge tends to make him a more correct worker; for though in 999 cases with which he may have to deal the rule of the office may suffice, in the unexpected thousandth case, knowledge of the purpose and intention of it all may help him just where the office rule proves a little inadequate.

The office worker should master the principles of book-keeping.

His own particular office may have some special methods of its own, but almost certainly these are an adaptation of the recognized principles, and comparison with these principles can have a highly educational value.

In a chapter that follows, a brief outline of the theory underlying modern book-keeping will be given, as a prelude to all office work.

The Dawn of Accountancy

Something of the story of accountancy may be of interest as leading up to this.

Accounting, in some form or other, has existed from quite ancient times. In early days, trade was practically barter—the exchange of one commodity for another commodity—not, as

in the present time, the exchange of goods or services for cash, or bills, or credit.

Yet, as transactions grew more numerous and complex, some form of indebtedness must have been incurred and noted.

Baked Bricks as Ledgers

In the ruins of ancient Babylon, records of money-lending and other commercial transactions have been found—records made originally by a stylus, or sharp pointed instrument, on soft clay tablets or tiles, which were afterwards baked hard in the sun. Leaves of trees were also employed as materials for records; and our phrase “the leaves of a book” was once a literal expression of fact.

The Tally Stick

The “tally,” as a means of keeping accounts, is thought to have been introduced into England by the Normans. Two similar willow or hazel sticks were used, or one stick split longitudinally into two parts.

The quantity of goods sold, or the amount owing from one party to the other, was marked by notches or cuts. In some of the old illustrations, the notches look exactly like the teeth of a saw. One stick was kept by the debtor, and the other by the creditor.

If this was not actually double-entry, it was, at any rate, double record in debit and credit fashion.

Such tallies were also issued by the Exchequer to State creditors, as acknowledgments of indebtedness, writing being at that time a rather rare accomplishment. The smallest notches denoted pence, the larger ones, shillings, and the largest of all, pounds; while amounts of £10, £100, and £1,000 were represented by proportionately wider and larger notches. After the stick had been cleft lengthwise, one part was handed to the creditor, and the other was retained by the State as a record.

Before payment of the account, the tally and the counter-tally were carefully compared; and, after payment, both were stored away together. The word “tally” is of sinister significance in English history.

The practice of issuing Exchequer tallies was abolished by law in the reign of George III. In 1834, in the reign of William IV, another law was passed, which authorized the destruction of the accumulated tallies. Accordingly they were burnt in a stove in a building adjoining the House of Lords.

Unfortunately, however, the stove became over-heated, and set fire to the panelling of the room, with the result that both Houses of Parliament were totally destroyed.

The Italian System of Book-keeping

The modern method of recording business transactions in Books of Account is said to have originated in Genoa, Venice, Florence, and other towns of Italy; whence it is often called the "Italian System." This system introduced the principle of double-entry: dividing each transaction into two parts, and entering the *amount* of each transaction *twice*, once in the Receiving or Debtor Account, and once in the Giving or Creditor Account.

From this fundamental proposition, that every debit had its corresponding credit, was derived that highly important corollary, that the total debit in the Ledger must at any time be equal to the total credit.

This ingenious yet simple system, the application of the principles of which was destined to become world-wide, was undoubtedly the first to make possible a complete record of *all* transactions, however large or small, and of whatever kind—from the largest personal transaction in goods with debtors or creditors, to the smallest impersonal loss sustained in the purchase of a penny stamp.

Jones's "English System of Book-keeping"

Jones's *English System of Book-keeping*, first published in 1795, denounced the then widely prevalent practice of single-entry, which consisted in keeping merely personal accounts of debtors and of creditors.

Traders who adopted this method neglected to take stock, or even to make a periodical general balancing of their books.

This system, while furnishing information regarding the *external* affairs of the concern, the money owing to the trader from debtors, and by the trader to creditors, failed to yield any information concerning the *internal* affairs of the business.

In particular, traders were unable, as Jones says, to ascertain whether the result of their trading was a gain or a loss. This might well prove disastrous, because losses would mean a consequent decrease of capital, and eventually bankruptcy.

Jones also attacked the Italian system, which he condemned as "troublesome" and "per-

plexing." He even went so far as to say that it was "not possible to demonstrate the correctness of books kept on the Italian System."

Clever as the Italian writers undoubtedly were in devising the scheme of impersonal accounts—treating things as persons—thus enabling every little gain or loss in business to be recorded in its appropriate Ledger Account, they nevertheless lacked skill in classification and arrangement.

Jones's masterpiece was deservedly popular. Some of the earlier editions—the first four at any rate—sold at four guineas a copy! It was flatteringly denominated "a great national benefit."

In response to an iterated demand from the mercantile and trading community, subsequent editions were stereotyped to enable the price to be reduced. About 1840 the work reached the zenith of its popularity, its twentieth edition, which was, however, a posthumous one.

Jones and the Italian System

What Jones really did was not to overthrow the Italian System, but to evolve a clearer and more skilful use or adaptation of the double-entry principles underlying it.

Instead of journalizing every transaction, Jones suggested the use of separate books for certain kinds of transactions which were continually occurring.

Thus he proposed the keeping of a Cash Book with Cash, Bank, and Abatement (i.e. Discount) columns, for all receipts and payments of money; a Bought Day Book for goods purchased on credit; a Sales Day Book for goods sold on credit; a Returns Day Book for all goods returned, one end for returned purchases, and the other end for returned sales; and advocated posting to the Ledger direct from these subsidiary books.

The totals of these books, however, were to be entered periodically into the Journal, in order, as he thought, to make a complete double-entry system, so that a Trial Balance, or General Balance as he called it, might be prepared from the books to prove the accuracy of the aggregate postings—the totals of the General Balance having not only to agree, but to correspond with the totals of the Journal when added. Jones also used the Journal for speculations and joint ventures, and for such entries as could not properly be made in any of the other books.

The Italian Journal contained two columns, but the first column was merely for the purpose of making short additions or subtractions.

Jones used the Journal in a much more skilful fashion than did the Italians. He definitely laid down these rules :

1. That there should be two columns in the Journal.

2. That the first column should invariably be kept for debit amounts only, and the second column for credit amounts only.

3. That the name of the account to be posted should always be on the same line as the amount to which it referred ; and

4. That the Journal should always be added, so that, page by page, it could be seen whether the total debits equalled the total credits, and thus lessen the chance of errors occurring in the Ledger.

Modern Developments

It is hard to know to what extent British book-keeping has been influenced by scientific principles.

During the last century business men, copying and learning from each other, adopted methods that appeared to meet the conditions of their own trades.

Firms were satisfied with a kind of debased single-entry which was applied on a rule-of-thumb method to each new case as it arose.

In hundreds of thousands of different places book-keeping appeared to grow out of itself and because of its own needs, assisted very largely by the fact that almost anyone who had worked in an office knew the uses of such standard books as Ledgers, and Day Books. How to deal with a Cash Book was a somewhat more obscure problem, especially when compli-

cated with the keeping of a Bank Account ; and each solved it in its own way.

Nearly every man is an instinctive book-keeper of sorts, and can develop some kind of a way of keeping his money matters, so as to know a little about them.

But later, those firms whose transactions grew in number and complexity had to search around to see how other firms managed their book-keeping.

Wholesale merchants, brokers, bankers, insurance companies that had been among the first to discover that book-keeping was a science and a very exact science too, had a large influence on those with whom they came in contact.

Later came specialists in account keeping. Actuaries, chartered, incorporated, and other bodies of accountants, built up professional organizations and agreed upon those definite fixed principles, which were outlined in Jones's interpretation of Italian double entry.

The great trading firms and the financial corporations were quick to see the value of these professional advisers. But for a very long time a surprising number of firms and traders continued to be satisfied with book-keeping built on a few recognized customs, and kept books that would reveal most facts to a patient searcher, but nothing at a glance.

Many firms adopted newer methods through becoming limited companies, many others in order to secure the assistance of their banks when they wished for temporary overdrafts, many joint-stock concerns again in order to satisfy debenture holders and shareholders, by producing properly audited accounts.

CHAPTER II

OFFICE ORGANIZATION AND EQUIPMENT

IN the Introductory chapter it was pointed out that the organization and equipment of an office should always have a relationship with the size and complexity of a business.

The soundest keynote of business is simplicity, and the value of sound organization is that it simplifies operations and makes the work lighter. Wherever organization and equipment tend to make a business more difficult to operate, it is apparent that there is something unsound about them, and they need overhauling.

One of the chief difficulties in the proper organization of a business is that nearly all successful trading concerns grow from small beginnings; and growth, whether in a human being or in a live firm, is sure to be marked by inequalities and a constant unevenness in development.

Bacon in his *Advancement of Learning* used the illustration of a growing boy to explain why it was that, in times of intellectual advance, knowledge was usually increased in an irregular and spasmodic manner. He suggested that the boy whose figure begins to proportion properly has ceased to grow.

This difficulty also shows itself in business. The bustling, thriving concern constantly calls for enlargement of plans that seem to change the methods and system continually.

Organization and Growth

A certain great British manufacturer once declared that he had always had to manufacture his goods amid the bricks and mortar of extensions, and such a statement may make the beginner imagine that where there is life and vigour, organization is impossible, in the strictest sense.

A few miles out from the North-West of London is a model factory, weird in appearance, and seemingly strangely planned; but the proprietors are able to make a really important claim for it.

"Most manufacturers have to fit their business into the factory. We built the factory to fit the business."

That firm has a huge trade, and for certain reasons can estimate what the requirements from that factory are likely to be for years to

come, and, in consequence, the factory fits the machinery and organization like a glove.

'But few firms have this advantage. Business can fluctuate wildly. It can even double or halve in a single year. Either kind of change may persist, and organization must keep up with one or be pared down to meet the other.

But in spite of this, there is little hope of successful business without organization, and the office is the scene of its severest test.

Sound organization triumphs over the equipment, fittings, and material arrangement that express it. The Director's Board Room of this year may become the cashier's office next; the clerks' office be changed into a sample room, and a whole factory floor may become the new counting house.

But if principles of organization are sound, the whole change can be made over night and the work go on without a single fault resulting.

General Principles

Organization denotes systematic arrangement in which each part is so co-ordinated as to become a means to the desired end, which is the smooth working and efficiency of the whole.

Although each part may be important, the whole is greater than the part, and each part must, therefore, be subordinated for the benefit of the whole.

Thus, in games, each player in a team may have individual merit, yet the team will be beaten by another that is so well organized as to act as a compacted unity.

In the human body each part must not only function properly, but must also fit in with the other parts, in order that the whole organism may act properly.

A strong body must be directed by a capable mind in order to get the best out of it; the organism is defective if either is not in harmony with the other.

The rehearsal of a play or pageant is simply a preliminary trial of the carefully-planned and built-up organization, to see if each part fits in harmoniously with the working of the whole.

Organization, then, means much preliminary planning, the devising of the best means to an end. It must be based on sound principles, and

worked by approved, effective methods. It needs wide vision, as every link is of importance. Nothing on a large scale can be done without organization. All the various workers might assemble to erect a building, but they would be useless without the architect's plan. There must be division and organization of labour; otherwise one worker will get in the way of another; two workers will both want to do the same piece of work, or require the same article; or one worker will be left idle through having to wait for another to finish.

Possibly the best known example of organization on a large scale is the government of the country. We see the work divided into numerous sections, such as the army, navy, police force, post office, civil service, judges, magistrates, and tax collectors. And yet all these sub-organizations are controlled and directed by one central authority called the executive.

Some readers will smile at the illustration as they think of the awkward methods and tedious delays of government departments. But none the less, if viewed as an example of co-ordinated activities, the government of this country is a really remarkable triumph of system, in view of the fact that there are important rights, liberties, and even privileges that it is held desirable to protect and maintain.

Competition the Test of Organization

This illustration of the government of the country breaks down in some ways, as applicable to system in business, for the simple reason that there is no competition of the kind that the business man must face.

And competition is not only the soul of organization in commerce, but the test of it. A business man has not merely to consider whether the organization of his business is as good as the average among successful business men in his town; he must be able to know that it is as good as the average of the successful local business men in his own trade.

A and B, two drapers in the same city may be far more able than all the grocers, jewellers, and confectioners around them, but if A is not as skilful as B, the fact that he is abler than many successful men with whom he does not compete will not protect him from the risk of losing trade to the opponent whom he must meet.

Many a firm has failed to compete in its organization—and yet has been well organized. The fault has been that it has not been so

arranged as to meet the special kind of competition that assailed it.

We used the illustration of grocers and drapers, not in any sense to infer that one class of trader is better organized than another, but to illustrate the point that in some classes of trade the man who is not a genius at organization has very little chance whatever.

Two Classes of Business

Now let us draw a line between two classes of business to make this more clear. The difference of method is not quite as great to-day as it was twenty years ago, but in a limited measure it still exists.

The line we draw is between advertising firms and non-advertising firms.

Of the first it might, at one time, be said, and in a lesser degree can still be said, that they sell their goods entirely because of their success in advertising.

"Let my advertisements be right," said such a manufacturer, "and any old system will do in the works. Let the publicity be wrong, and the best organization in the world cannot save me."

On the other hand, successful non-advertising firms, some of which turn over huge sums of money in the essential commodities of life, often at the most fractional profits, have usually been models of the most remarkable skill in plan, adjustment, and system.

Yet these are the survivors of the great firms that lapsed in being this.

No organization will, of course, be perfect; experience of its working will reveal minor defects. The excellence appearing in theory is not always discernible in the results. In large establishments, overseers and inspectors are appointed to examine the organization. In business organizations, also, foremen and supervisors are appointed, as the principal cannot devote all his time to supervision.

Too much supervision, however, is apt to produce mere "eye service"; a costing department may find piece-work wages more effective than all the oversight and supervision that can be devised.

Freedom as a Business Asset

Very often the soundest kind of organization permits of the widest use of personal liberty, and the business as a whole may flourish because of the success with which each capable worker is allowed to be the king in his own little castle.

This may seem to be a strange fact to admit when dealing with such a subject, but it must be remembered that the kind of organization which can use and develop personal freedom has always a better prospect than the kind which drives out the men capable of using initiative.

This is obviously true of many parts of the business that do not come into the scope of office work.

In commercial travelling, for example, the best men on the road are frequently armed with powers, the exercise of which may shape the policy of the firm.

Our point here is to show that, within reason, the same fact is applicable to office work. This does not mean that the genius at figures may introduce higher mathematics into the day book, or the gifted young literary clerk turn all his letters into verse; but no matter how routine-like a task may be, there is always opportunity for giving it the touch of personality.

An organization for purpose of business must be a real, live one; that is, it must contain within itself a power of adaptation. A need for change may become apparent, in order to meet changing conditions. An organization must develop and increase in efficiency or it will decline; there can be no standing still.

And even here the value of rigid mechanical methods must be appreciated, for they often constitute the means by which the desirability of change is discovered; and they often indicate the safest and soundest way by which a change shall be affected.

In many cases, a business organization is tested by results in the form of carefully-compiled statistics; comparisons are made between hour and hour, day and day, workman and workman, machine and machine. The organization is thus subjected, so to speak, to a sort of automatic criticism.

And the results of such search and inquiry can easily be the stimulus toward progressive change.

To sum up, the general principles of business organization may be said to be: the collection or assembly of the best parts, workers and machines; the subordination of one to another, and the co-ordination of one with another, for the purpose of combined working; the division of work into sections, with sectional or departmental control, direction, and supervision; and the whole culminating in a centralized management or a unified control and direction.

From general principles we may pass to an example illustrating their application and adaptation to the needs of commercial and industrial enterprise.

The Manufacturer

Let us take the case of the manufacturer.

These are days of keen competition. Haphazard control and "rule of thumb" methods will not do. The manufacturer must follow the example set by his more powerful competitors and organize.

He has to contend against limited companies, which, on account of their large capital and powerful organization, may have resources far exceeding his own.

He has also to compete with the business as small or smaller than his own, which has very low overhead charges and no weight of dead or withdrawn capital for which interest must be provided, so that he stands between two fires and may have to choose between two entirely different policies.

He must utilize to the utmost the capabilities of his factory for economic manufacture, so that the article he produces may compete with that of others in the open market. The success of others may provide him with valuable ideas, and act as an incentive to further effort. He may not be able to adopt their organization, but quite possibly he can adapt it to his own particular business.

Organization is frequently thought to be a matter for only very large concerns, whereas it applies equally to all. The manufacturer, thinking in terms of money, often regards it as having to spend a shilling in order to save sixpence. If he thought of it in terms of turnover, he would see that it is really a matter of spending sixpence in order to earn a large number of shillings.

Over-organization is, of course, as bad as under-organization or lack of organization; it is a case of being all machinery and no power. Organization has reached its limits, in fact has overstepped the limit, when the organized unit ceases to be an economic unit; when the finished product of the factory cannot compete in the open market, or when the large gross profit made by trading is all absorbed in distribution and administration expenses.

Organization is as necessary to a business employing ten men as to one employing a thousand. Control and management are alike impossible without effective plan.

Even if success is achieved, it does not follow that the possibilities of the factory are exhausted. The development of the organization may add to the productive capacity of the factory. It may thus be possible *indirectly* to increase or cheapen production by eliminating waste of time and material, by preventing overlapping of work, or by dispensing with labour found to be superfluous.

The Factory Plan

Organization enters into even the "lay-out" of the factory. The space must be utilized to its utmost capacity, yet not so as to restrict the capacity of the machine or obstruct the operator.

Clear entrances and unobstructed exits are of the greatest importance to ensure the requisite freedom for smooth and efficient working.

In the large factory, the work will be divided into sections. There will be a planning department, a rate-fixing department, and a progress department, each under the control of a specialist or foreman.

There will also be a costing department to deal with store records, requisitions, supplies, and issues of stores and materials, and also manufacturing costs.

In a small factory, there may be a Works Office to control the planning, rate-fixing, costing, and progress of work; and sections of work may be grouped to provide unified control. The mechanic should not be hampered by having to do clerical work, but should be free to go straight ahead with his tools and material.

Definite or specific duties should be assigned to each assistant. Implicit obedience to rules should be insisted on, and then every one will know exactly what is his work and how it is to be performed.

Efficient organization will aim at keeping each department fully occupied. The foundry should not turn out more castings than the machine shop can deal with; the machine shop should not be working at full pressure while the foundry lies idle. Adjustment should be made so that the foundry adequately feeds the machine shop, or the machine department should be better equipped so as to be able to deal with the foundry output.

The Manager and the Departments

The management of the factory will be entrusted to a works manager. As he has to

control the whole efficiently, he cannot give all his time and attention to any one part or section. He will, therefore, delegate responsibility to foremen or heads of departments.

The Works Office, a clerical organization dealing with the technical aspect of the work, will furnish him with the necessary details, and will pass on his instructions, thus making itself virtually the factory executive, the centralized controller of the factory organization.

A prominent feature of modern factory routine is the Progress Department, which receives information from, and furnishes information to, all the various sections. It supplies the manager with delivery charts, thus keeping him in daily touch with "output," which is for him the dominating factor. It also supplies the foremen with a precedence list, so that priority can be given to urgent work, and thus prevent any "eleventh hour" rush.

No modern factory organization is complete without what is known as the Welfare Department. This department concerns itself with the improvement of working conditions and the encouragement of social activities. It sees to the provision of seats, washing and lavatory accommodation, lighting, heating, and ventilating of workrooms, shops, and offices.

It also provides for outdoor games such as football, cricket, and tennis, and for indoor games and amusements, such as cards, billiards, and music. It also arranges sick clubs, banquets, lectures on technical subjects connected with the business, and classes for self-improvement.

The object of the welfare organization is to foster good feeling and fellowship, and to secure whole-hearted interest in the employer's work—things which are now deemed essential to the success of the business.

Value of Routine

Routine is the pre-arranged plan according to which the various activities of the organization are to be carried on. It provides the daily round which must be followed for the general work of the business. As is habit to the individual, so is routine to the organization; habit carries on the former, routine speeds on the latter.

It may be found necessary to alter the original plan. What is wanted is not merely *a* way for carrying on the work, but the *best* and *quickest* way; and when this has been found, it should be rigidly adhered to.

Where there is a prescribed way of doing the work, each assistant knows just what to do. Thus, habitual routine makes for economy and efficiency. With different ways of doing things, and a choice of ways permitted, the result would probably be confusion and delay. The larger the establishment, the more elaborate the routine.

What to an employee, looking at the organization from merely one angle of vision, may appear to be a fault, may to the master mind responsible for the organization, and viewing it as a whole, be offset by compensating advantages of which the employee knows nothing.

The best of schemes, however, is far from being perfect, especially when the human element is a very great factor in it. Only experience will bring the faults to light, and only experience will show the best remedy for the faults. In highly organized businesses, therefore, routine is inflexible and must be rigidly followed; every cog must fit into the wheel or the wheel will most assuredly not go round.

Essentials of Smooth Working

Co-ordination and co-operation are absolutely essential for the smooth and harmonious working of the whole. Certain duties must, therefore, be definitely assigned to certain persons. This fixes individual responsibility, and secures individual effort and attention.

Where several persons must, owing to the size of the work, take part in it, each should be required to initial for the part performed by him. Such work, for example, might be the execution of customers' orders, packing and the dispatch of goods, or the unpacking and checking of goods inwards.

Mistakes most frequently occur where duties are not clearly defined. The machinery gets jammed because two people try to do the same work; or it functions improperly either because two assistants leave a certain work, each thinking that the other will do it; or because an assistant is not on the spot at the time certain work is required. A routine that effects an economy in time and mistakes will soon effect an economy in expense as well.

Organization of Office

Although the word "office" usually suggests clerical work, yet there are other important functions besides keeping the records of the business. Very often the office is the centre of general organization and management. In this connection, "office" means the main office,

i.e. as distinguished from the subsidiary office in the factory or in the warehouse.

The principal functions of an organized office are—

1. To deal with the letters received, and to carry on the necessary correspondence they involve. To deal with the outwards correspondence necessitated by the requirements of the business itself.

2. To purchase supplies of raw material for the factory, or stocks of manufactured goods for the warehouse, and arrange prices and terms of payment. If a separate Purchasing Department is provided, to assume general control and direction of it.

3. To deal with orders received for manufactures, or for merchandise, and arrange for their execution and dispatch. If a separate Selling Department is organized, to take general control and direction of it.

4. To collect accounts owing to the business either for goods supplied or for services rendered.

5. To handle all money received, and to provide an efficient system of checking and banking all receipts. To provide for the payment of accounts due to creditors, and for payment of salaries and wages, and also the usual business expenses.

6. To provide an efficient Accounting Department, in the case of a manufacturer, with an efficient Costing Department, so that proper records may be kept, and final accounts of the manufacturing, or trading, or both, be easily prepared.

7. In the case of a joint-stock company, a Secretarial Department to deal with registers of shares, debentures, and transfers, dividends, and statistical records and returns required by the Companies Acts.

The office organization will also deal with all work outside the scope of the works organization, the purchasing organization, and the selling organization, e.g. engagement of staff, travellers, inquiries and quotations, legal, and other matters; and while supervising these subsidiary organizations, which are in each case responsible to it, will itself be the seat of general management and responsibility.

The office will thus be the connecting link between these various subsidiary organizations and the outside commercial world.

Control and Management

Generally speaking, the office organization is controlled by one person, the chief partner in

the case of a firm, and the managing director in the case of a joint-stock company.

The work of each department is not at all similar, so that different persons will usually be at the head of each department. Thus, an accountant will be at the head of the book-keeping department, a cashier in charge of the cash, a works manager in charge of the factory, a cost accountant in charge of the costing department, a buyer in charge of the purchasing department, a sales manager or sales director in charge of the selling department. The principal duties of the executive will, therefore, be supervision and general control, for heads of departments will relieve him of all detail work.

Lay-out and Equipment of the Office

The plan and equipment of the office premises require careful consideration. The office is generally placed close to the warehouse or entrance. In some businesses where customers are likely to call, both showrooms and office are, if possible, placed on the ground floor for the convenience of callers. In other businesses, where there is no such necessity, the office may be placed in the background.

Where there is a retail shop, the office will not be concerned with the public, who will want rather to see the goods and make purchases, the cash for which will be taken by an assistant at the counter.

In a wholesale business, there may be frequent intercourse between the office and customers. The transactions being largely on credit, the office will be vitally interested. Settlements of accounts, disputes about prices, claims, and other subjects, may frequently be the cause of visits from customers. The office in such circumstances may be placed on the ground floor.

There is a vital necessity for the office to be close to the warehouse. The frequent passing of orders and documents between them renders quick and easy access desirable.

In most businesses there is an inquiry counter in connection with the office for first dealings with callers. A little inquiry window to be tapped at is apt to give a bad impression to callers who may be prospective customers.

Large or Small Offices ?

Where there are many clerks employed on routine work it is considered desirable for the whole of the clerical staff to be accommodated in one room, if it is at all possible for this to be done.

The object is not entirely one of supervision,

though unquestionably this is a factor in the case. The real advantages are many.

There is the convenience that all the commonplace books of origin and record are within easy reach of every one who has the right of access to them.

There is the greater facility for team work in exceptional rush times, when many working together can develop the "herd-spirit" to the point of enthusiasm.

Adaptability has more opportunity. There are cases where clerks can be "changed over" from one job to another to meet exceptional strain in any one department. These can be dealt with more easily in the one large office than is sometimes the case in a smaller one.

Sometimes, too, in one large office it is more possible to give changes of occupation to clerks than where the accommodation is broken up. Monotony can thus be avoided, which is a very desirable aim.

As regards supervision the advantage is dubious, for the tendency of the one large apartment is to make the supervisor trust his eyes and scrap other tests.

The real idler in the office—the man who never pulls his weight—is rarely the one who looks like an idler. He is seemingly the most industrious of all; for his dawdling ineffectiveness can appear to be devoted application, and yet accomplish nothing.

Small Offices for Creative Work

The large open office is probably not suitable for those who have to do creative work. It is doubtful, for example, if some men who are clever at correspondence can do their best if they feel themselves under supervision, or are liable to interruption.

One authority upon this subject, who has built up a great business by means of correspondence, insists that any one called upon to write an important letter must have a private office. And he also adds that every letter sent from a business address must be considered important.

An advertising department, where original ideas are worked out, must almost necessarily have an atmosphere quite different from that of a counting house.

The premises should be well lighted, heated, and ventilated; as where working conditions and surroundings are unhealthy or unfavourable, they react on the staff, and do not conduce to that alertness and contentment which are much

to be desired even in the employer's own interest. Cleanliness and sanitation are also very important matters.

Telephones between the different departments of a large office should be installed, in order to facilitate communication and prevent the waste of time involved by the use of other means.

The desks provided should preferably be without pigeon holes or drawers, as such desks only facilitate the collection of litter, and papers easily get hidden or lost.

For book-keeping, long, high, sloping desks are preferable to those of a flat kind. They permit two or three books to be opened in close proximity, and thus facilitate posting and checking. They also allow the book-keepers either to stand at their work or to sit, and thus avoid the tedium of working too long in any one position. For typing, low, flat desks or tables will be more suitable.

The desks should be placed so that they get the full benefit of the daylight. Artificial light should, if possible, be so arranged that no shadow falls on the work. There should be easy access to each member of the staff, so that no one is hindered except the one with whom communication is necessary. A rack should be provided on top of the desks to hold books in constant daily use.

There should be a safe or safes to lock up cash from risk of theft, and to preserve important books and documents from risk of fire. Waste-paper baskets to prevent the floor being littered are, of course, another necessity.

The introduction of office machines, typewriters, calculators, and book-keeping machines, has made the office noisy. These should be carefully placed and arranged, so that the area of noise is confined as much as possible to the operators' quarters. The noise should not be allowed to affect the other workers, as it is a great strain on them. It may be an advantage to place them in a separate room.

There should be a reference library attached to the office. Dictionaries, directories, encyclopaedias, railway guides, atlases, and code indexes should be included. In addition to these, many firms install a circulating library for the use of the staff. This consists of educational books on various aspects of commerce, economics and industry.

Office Staff and Division of Duties

It is sometimes convenient to take a specific business as an example in order to show the

way in which an office may be divided into departments, so that all transactions can come into the province of one or other of the heads of departments.

It is easy enough when we have a special case before us to realize that all firms do not work on the same plan, and that arrangements must always be made which suit the particular needs and policy of each firm.

In the case which we select, the Managing Director regards his private office as the key office of the whole. Here are held the weekly board meetings at which the larger matters of policy are settled. These policies are carried out by the managing director through eight chief officials—

1. The Chief Accountant.
2. The Cost Accountant.
3. The Sales Manager.
4. The Advertising Manager.
5. The Chief Correspondence Clerk.
6. The Buyer.
7. The Factory Manager.
8. The Warehouse Manager.

Let us deal with these in order.

The Chief Accountant

1. The Chief Accountant has several departments to control—

(a) The official work of a limited company dealing with shareholders, dividends, necessary legal routine, and other requirements of the Companies Acts.

(b) The cashier's department in which, either personally or through his assistant cashier, he is the person to take charge of the money coming into the business, to give receipts, to write up the Cash Book, to make payments into bank, to check the Bank Pass Book, and write up the Reconciliation Statement agreeing the Pass Book with the Cash Book.

He draws the cheques for the creditors' accounts as checked and certified by the accountant. He draws the cheques for the wages and salaries sheets as certified by the accountant. He also supervises Petty Cash payments, and draws the cheque for reimbursement of the amount spent. A small staff, including the petty cashier, may be under his control.

In so far as the travellers collect money for the firm, he provides them with cash-sheets and statements of account.

He also supplies the money advanced to them for journeys and keeps check upon their travelling expenses. He also obtains from them

reports upon the standing of customers, which with other data constitute the basis on which amounts of credit are decided.

He has control of overdue accounts, but acts in agreement and conference with the travellers, referring back to the managing director in cases where opposing views are held.

(c) The lower or original entry range of books. Here through his assistants he is in charge of the book-keeping staff. Under his control are day book clerks, invoice clerks, ledger-keepers, book-keepers, and sub-accountants. Where invoicing, book-keeping, and accounting machines are in use, his control extends to the staff of operators employed for such machines. Here he is in touch with the foreman.

(d) Through his staff he is also responsible for preparing the wages sheets, and checking them with the time sheets from the Works Office, and passing them to the cashier.

(e) His staff also checks the creditors' accounts and certifies them for payment; it also prepares the monthly Trial Balances to prove the correctness of the separate Ledgers. The preparation of statistics concerning sales, stocks, bad debts, travellers' turnovers, commission and expenses, also falls to the lot of a section of his staff.

(f) Finally, the accountant is responsible for the preparation of the half-yearly or yearly Manufacturing or Trading Account, or both, the Profit and Loss Account, and the Balance Sheet.

This seems to be a great range of duties. In a very large business it would be cut into sections, but in, say, a small private limited company there might be a convenience in one man, whose official business for complying with statutory requirements would only very occasionally call for attention, controlling the whole.

It would really mean that such a man was actually chief cashier and book-keeper, and carried out the requirements of Company Law as an additional duty.

The Cost Accountant

2. The Cost Accountant keeps the cost records, analyses and apportiones the charges for material, labour, direct and indirect expenses, and writes up the Cost Books or Ledger.

In a manufacturer's business, the costing may be done in the accountant's department, or it may be assigned to a separate Costing Department. Much depends on whether it is merely costing for one special article, or whether it is costing for a variety of articles.

The more elaborate the work, the greater the need for a separate Costing Department under the control of a Cost Accountant; and where the work is of a highly technical nature, it is often assigned to a subsection of the Works Office in the factory itself.

The Sales Manager

3. The Sales Manager has control of the selling staff. In many business concerns he is also advertising manager. In others, where the tasks are divided, the sales manager keeps in very close touch with the advertising manager.

He may also have some control of the warehouse on its dispatch side, or at all events must keep in close touch with its foreman or manager in order to see that promises made to buyers are rigidly carried out.

The sales manager should also keep in touch with the keeper of the Sold Ledgers, in order to see that good customers are not unduly harassed if they omit a payment or take longer credit than they should. He is the buyer's advocate in the business, and should be able to form a fairly sound opinion of the fitness of customers for credit, and also advise upon the collection of money without hurting goodwill.

In some businesses "sales manager" is merely a title given to a principal traveller, as a mark of seniority or as a recognition of capable personal salesmanship. In others, the title implies an important indoor position occupied by a man who has little time to devote to personal selling, but who works almost entirely through his deputies.

Broadly speaking, the sales manager should be employed where business is obtained by national advertising.

Where it is obtained by personal salesmanship, the traveller is frequently an important unit in the business, acting directly in touch with the heads of the firm.

The Advertising Manager

4. The Advertising Manager's position is important or otherwise in accordance with the general attitude of the firm toward publicity.

In some cases the whole business is entrusted to an outside expert agent, in which case the manager may be practically an accountant who includes the checking of work done, and other minor publicity tasks, with duties in some department of the office.

In other cases the advertising manager may be second only to a director in importance, and

may have absolute control of the most responsible and profit making work in the place.

The Chief Correspondent

5. The Chief Correspondence Clerk is noticed here as head of a department in order to recognize the growing attention to correspondence in business.

Broadly speaking, every head of department has his own correspondence, but the chief letter writing of the firm is done by the managing director.

But it is being increasingly recognized that there are some men and women who have a special aptitude for writing business letters, and special departments are often erected for the purpose of using this gift.

Usually when this is done the letters written are chiefly Sales Letters, and the department works in very close touch with advertising and sales management.

In some firms it is a rule that all letters from all departments shall be left unfinished until the sales correspondent can add an appropriate paragraph calling attention to special new lines or other points of assistance to the sale of goods.

This has been found a very profitable method, and even a letter requesting payment of an account loses no weight by the addition.

The Buyer

6. The Buyer has duties which are dealt with fully elsewhere. Obviously he must be in touch with those departments where stock is received and held, and must also be responsible for approving inward invoices before they are accepted and passed through the books.

The Factory Manager

7. The Factory Manager would be in touch with the Cost Accountancy Department and the sales manager and buyer.

The Warehouse Manager

8. The Warehouse Manager or foreman would be in touch with the clerks office both in dealing with the dispatch of goods and in their receipt, whether from the factory floors or from supplying houses.

How the Business is Linked Together

It is here convenient to describe some of the appliances by means of which the office is linked up not only with its own departments, but with warehouse and factory.

House Telephones

The telephone is an indispensable part of modern office equipment, as a link between the various sections or departments of the business as well as with the outside world. There must be some means of communication between the manager and the various departments. The old-time method was for the manager to strike a gong or ring a bell. There is sometimes an electric bell from the manager's office to the outer office, and a recognized system of rings; one for the office boy, two for the typist, three for a junior clerk, and so on. Much time is wasted in someone going to find out what is wanted, when the exact message might be spoken direct.

The old-fashioned speaking tube is still in use in some offices; but it accumulates dust, and harbours germs. The modern idea is undoubtedly to use house telephones of one description or another. Telephones should be provided with a silencer, so that the person at the other end of the wire is not able to overhear any conversation that may be going on in the room.

In many offices there is still a switchboard, and internal connections are in charge of a competent operator, who is able to connect callers with their desired objective; and heads of departments, on going out, leave behind a record of their movements, so that they can be traced in the event of urgent calls.

The disadvantage of the manually-operated switchboard, however, is that it does not provide instantaneous connections. Again, the ordinary telephone does not permit of a conversation being carried on with more than one person at a time.

The object of the modern inter-communicating telephone is to enable one person to speak direct to another without the medium of the switchboard and the connecting operator; also to make it possible to speak to more than one person at the same time.

All things are subject to change, and the Post Office itself has adopted automatic exchanges, and dial telephones, or "autophones" as they are called. The Post Office control, however, does not extend to inter-departmental telephones when they are not connected with the national system; and firms can, therefore, adopt which system they prefer.

As there are several systems, with different methods of operating, it will be necessary for the business to adopt the one most suitable for its requirements.

The Dictograph

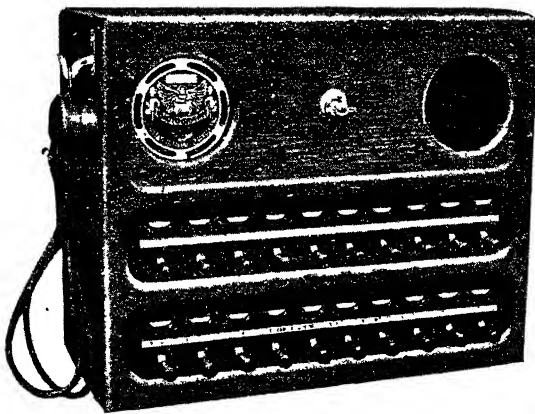
The Dictograph is practically a loud-speaking telephone. It will do many things which the ordinary telephone will not do. There is no receiver to hold, no mouthpiece to speak into; in the words of the makers, nothing to do but just "flick" a key, and you are at once in touch with your most distant department.

Connection is established immediately by depressing the key corresponding to the station wanted. Under this system, when the principal makes a call he will never receive the reply "Engaged," as with his master station he can immediately cut out all other calls.

Conversation is directed from any part of the room towards the master station. The

arily cut off the other caller and clear the line for the principal.

A third party cannot break in or interrupt a master-station conversation. It is certainly

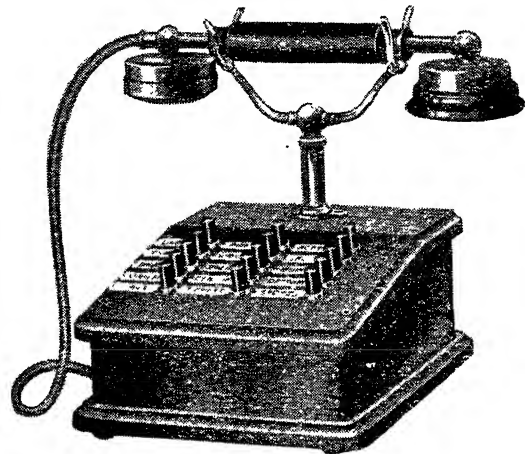


DICTOGRAPH MASTER STATION

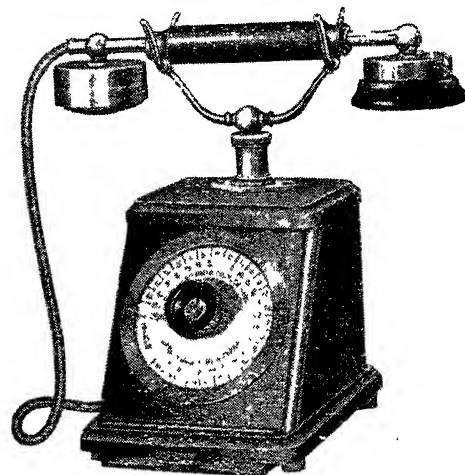
round opening on the right is the telephone, a sort of broadcasting loud-speaker; the disc on the left is a super-sensitive transmitter.

The ear-piece shown on the hook at the side of the instrument can, however, be substituted whenever private conversations are desired. Where this is not necessary, the loud-speaking receiver can be used, and the replies will then be audible from any part of the room. Another advantage is that it is possible for the manager, without moving out of his chair, to speak to several sub-stations at the same time; and a conference can be held just as if all the speakers were in the same room.

All the circuits from the master station cause a light to appear when the principal calls up any member of the staff, and it is known at once if he requires the line; and if the line is engaged, the movement of a key will tempor-



15-LINE DESK OR TABLE "NEW SYSTEM" TELEPHONE



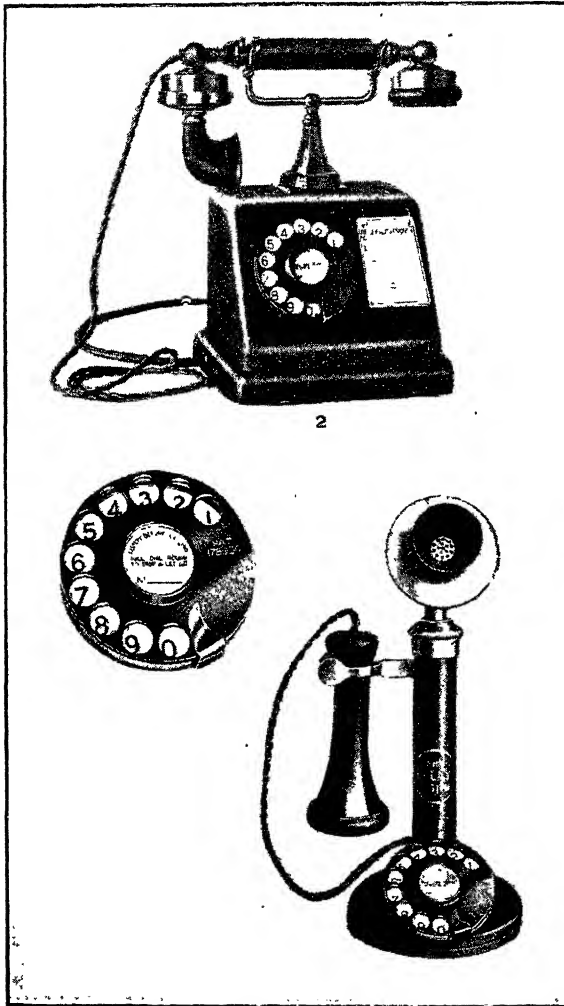
50-LINE "NEW SYSTEM" AUTOMATIC DESK TELEPHONE

a very great advantage to be able to use a phone and at the same time to have both hands free to take down notes or to refer to papers. The sub-station has no loud speaker.

This system caters expressly for the man in charge of an organization.

"New System" Self-Replacement Telephones

There are both wall and desk (or table) models of the "New System" Self-Replacement Telephones. They are adaptable to the requirements of any commercial or industrial organization.



"RELAY" AUTOMATIC TELEPHONES AND DIAL

The illustration shows a standard model. Each instrument is fitted with a set of buttons giving the complete range of stations. Depression of the appropriate button causes a bell (or buzzer, if required) to sound at the required station, and lifting the handset connects the two instruments. On replacing the receiver, the

key rises and the parties are automatically disconnected. Two or more stations may be rung up at the same time, and conversation carried on with several persons.

A secret control is provided to enable any two instruments to be isolated, so that their conversation cannot be overheard or interrupted. Another advantage of this system is the Round Call Signal. When no reply is received to a call, the absent official can be found by depressing the Round Call key, which gives the prearranged signal on bells in the vicinity of all the other phones. By depressing the Round Call key on the phone nearest to him, the wanted official is immediately connected with his caller. The Round Call can be made to serve as a fire alarm, a time signal, and so forth. Indicators can be provided, if required, to show the origin of the call, and also to show what lines are engaged.

The New System also supplies Automatic Exchange telephones for installations larger than twenty lines, or where extension to more than twenty lines is contemplated.

The illustration shows a standard model. To make a call, the dial is set so that the required number is opposite a pointer; the hand combination is lifted and the call made automatically. As soon as the call station handset is lifted, communication is established. The New System also supplies a loud speaking unit controlled by a master instrument.

The Relay Automatic

The telephones used are like the usual Post Office models, but a dial switch is provided. This is a circular plate containing ten holes, one for each digit and one for the cypher nought. The Relay takes the place of the usual operator; and, by a series of electrical circuits actuated through the dial on the telephone instrument, the caller becomes his own operator, and can automatically get into touch with any connection required within three seconds.

To establish connection with a given number, say 64, the receiver is lifted, and the tip of the finger is inserted into hole 6, and the dial plate revolved round to the "stop" and then released. On removing the finger, a spring connected with the dial restores it to its normal position. A similar movement is made for the figure 4, and connection is immediately made with No. 64.

If the number is engaged, the caller will hear the usual buzz, and must repeat his call after a short interval. By replacing the receiver, a caller is automatically disconnected.

The Relay Automatic System, however, operates in an entirely different way from Multi-wire Intercommunicating Systems.

“Relay” Automatic Telephones and Dial

This system is suitable for installations of any size, whether 5 lines or 5,000 lines. In the relay system there is no multi-wire method, neither are there complicated electro-mechanical switches or other moving parts as generally understood. The relay exchange is composed entirely of simple relays, which never require adjusting, lubricating, or cleaning. No operators are employed. All connections are effected in three seconds, day or night, and all conversations are private.

Relay exchanges require but little accommodation and can be placed anywhere, from attic to basement.

Many additional features can be incorporated in Relay Automatic Installations, such as loud

speaking telephones, master stations, conference lines, secretarial control, watchman's service, etc.

Other Appliances

So far the division of the office into departments has been dealt with, and it has also been shown how the different departments can talk to one another. In future chapters it will be seen how the different departments work, the relationship between the particular department and the counting house, and also the different machines used in order to economize time and labour. For instance, in the correspondence department such apparatus as letter copiers, duplicating machines, postal machines, envelope openers, addressing machines, folding machines, envelope sealers and stampers, as well as the many appliances connected with systems of filing and indexing will be described, and in the sales department, billing machines will be illustrated. But before these points are considered, the elements of double-entry book-keeping (i.e. entering items twice) must be dealt with, and this will be done in the next chapter.

CHAPTER III

DOUBLE-ENTRY BOOK-KEEPING

BUT why enter any item twice ? ”

Most of us have heard the question and many have asked it when the subject of book-keeping first came to our notice.

We must remember that we are supposed to be dealing with a business office where there are proper books for keeping accounts. A private person can deal with his transactions in a very simple manner. He can keep his money in his pocket or his note case or his purse, or put it into the bank and draw it as he needs to spend it.

But in a business office it saves work to keep accounts in a rather more intelligible way, especially if several persons are helping in the office work.

More than this it is convenient to have some definitely marked volume or volumes which shall contain simple and clear accounts, so kept that a trader can find out by examining them, how much money he owes other people, and how much money other people owe to him.

This knowledge takes in most of the transactions of trade, but not quite all of them. A sensible man in business likes to know rather more than this. He likes to have books that show whether his sales are keeping up, whether his expenses are too high, how much money has been put into the business, and how much he has taken out of it.

Every business transaction in which money passes or credit is given affects two accounts.

Both of these accounts are accounts of which some permanent record should be kept.

Now let us deal with a few of the items that appear on page 23. We just pick them at random as good illustrations of ordinary transactions.

The first is—

“ Commenced business with Cash £900.”

A man who starts a business by putting in £900, naturally wants to make a record of the fact. So somewhere in his books he should have an account that shows the fact.

A convenient name for this is “ Capital Account.”

Now arises a most interesting question—

“ The business has received £900. What has it done with it ? ”

If a business man has a place in his office where he keeps money, he should have a record of that money entered in a book. This is called a Cash Account.

A man who is putting money into a business sometimes puts it straight into the Bank, in which case the amount could be charged to the Bank.

But in the case before us the trader first of all charges the whole sum to his Cash Account.

So the two questions are answered.

1. “ Where did it come from ? ”

Answer : “ Mr. Blank’s Capital Account.”

2. “ What became of it ? ”

Answer : “ It went into the Cash Account.”

£850 is lodged in the Bank. Here again the two questions which arise : “ Where did it come from ? ” and “ What became of it ? ” require two answers, and the fact becomes clear that there must be two entries over that single transaction or the Bank Account will not be charged.

A little further down on the list of transactions on page 23 we see an item—

“ Jan. 3. Bought Goods from A. Brown on credit £221 16s. 8d.”

Again we have a definite fact to deal with. A large parcel of goods has arrived in the warehouse and we ask—

“ Where did they come from ? ”

This answer is obtained. So we make a record of the fact that £221 16s. 8d. is now owing to Mr. A. Brown for goods received.

So we deal with the question—

“ What became of those goods ? ”

There are different ways of keeping the account in which the sum might be entered. You can call it “ Goods Account ” ; but a simple plan is simply to call it “ Purchases Account.”

Another item in the list is—

Jan. 3. Sold Goods to F. Smith on credit £40 15s.

These you charge to Mr. Smith and credit to a Sales Account.

Another item—

Jan. 5. “ Sold Goods for Cash £5 7s. 8d.”

Ask the same two questions.

“ Where did the goods come from ? ”

Answer: "Out of warehouse."

Hence, Sales Account should be credited.

"Where did the money go?"

Answer: Into the Cash Account.

Hence, the Cash Account should be charged.

You can go right down through the list, as will be done a little later in the chapter, and it will be seen that there is not a single item in business that gets to a book-keeping stage, which cannot properly be entered twice.

The reason is that, excepting in the cases of Purchases and Sales, nearly every item HAS to be entered twice in order to prevent the books getting into a muddle.

Thus if Mr. Smith pays £38 14s. 3d. you *must* credit his account. Then if you put the money in the Bank the bank *must* be charged.

But there is no need in the modern use of double-entry laboriously to make all entries in detail.

Exactly the same result is obtained where a number of items have to be posted to the same account, if, instead of being entered separately, they are added together and the total posted to that account.

Now let us suppose that on 1st March a firm sends out and charges the following goods to four customers, on credit—

	£	s.	d.	£	s.	d.
Mar. 1. James Allport, Bristol	10	2	6			
Wm. Smith, Wells	5	4	—			
A. Bigg, Ltd., Bath	8	11	—			
Wm. Rogers, Swindon	14	2	6			
				38	—	—

Each of these customers has a Ledger Account, and each account is duly charged with the amount of the goods sent; so that, in different pages the four items are duly entered on the debit side of four separate accounts.

Thus one part of the work is completed.

All these items have now to be credited to a "Sales Account."

It will be seen at a glance that it is just as accurate and much less laborious to enter—

March 1. Sales, £38
as it would be to post each item separately.

Then again, if the goods sent out during one day can be added and the total posted, then those sent out during a week, or a month, or even a year can be added, and the total be treated in this manner.

Many firms find that the addition of such transactions monthly serves a useful purpose, being convenient for comparison.

Thus suppose £10 2s. 6d. is charged for goods

supplied to Mr. Brown, and the £10 2s. 6d. is added up with other amounts charged to other customers in a column which comes to £1,896 4s. 4d. for the month. Mr. Brown's Ledger Account is debited £10 2s. 6d., and the £1,896 4s. 4d. is credited to Sales Account.

There is only one entry of the £10 2s. 6d. in the Day Book (that is the book in which items originate), but the double-entry is made at the end of the month when the total of the Sales Book is posted to the Sales Account.

In the same way Mr. Brown's £10 2s. 6d. is posted twice. It is posted to the debit of his Ledger Account, and it is posted to the credit of Sales Account.

The fact that his name and the details do not appear in the Sales Account does not affect the point. His £10 2s. 6d. is posted in the Sales Ledger Account because it forms a part of the item £1,896 4s. 4d.

Then again, if Mr. R. Smith pays £38 14s. 3d. and it so happens that on the same day twenty other customers pay in cheques or cash, and they are all made up in the same Bank Lodgment, the amount is doubly entered as it appears as part of the total of £195 14s. 3d. which the twenty-one amounts come to.

And now we come to the second important point about double-entry book-keeping, the first point being—

Every item is entered twice.

This second point is—

If one of those entries is on the credit side of a Ledger Account, the other must be on the debit side.

Think of any transaction, and ask the two questions—

1. "Where did it come from?"

"Mr. Smith."

"Then it must be credited to Mr. Smith's account."

2. "Where did it go to?"

"It was lodged in the Bank."

"Then it must be charged on the debit side of the Bank Account."

If every money transaction is entered twice, once in a Ledger Account Debit column, and once in a Ledger Account Credit column, then the total of all the credit columns added together must exactly equal the sum of all the debit columns.

The work involved is not really greater, and is chiefly a matter of adding up the items in a few books that were not necessarily added before, and in making use of the monthly totals.

Advantages of Double-Entry

But the advantages are numerous. Here are a few of them—

1. An absolute check on all money transactions.
2. A rough general indication of the trend of business in reference to sales, purchases, and expenses. This may be every month or every week according to when books are totalled.

The first of these deserves passing reference. A Cash Book that is balanced off every week and "the cash in hand brought down," in an office where no one bothers about last week's additions, has occasionally made it easy for some untrustworthy accountants "not to bother if the money is a pound or two over," and only trouble to hunt for errors where it comes short.

Double-entry runs a bold shaft of truth right down through all such weekly or daily rulings-off. "So much has been received—what has become of it?" is the question double-entry asks about all cash.

As regards the second advantage. This is more pronounced in some trades than in others. Where percentages and margins of profit are fairly constant, cases have been known where, with the abstract of monthly totals before him and the trading accounts for a few previous years, a clever accountant has been able to gauge the net annual profit within a remarkably narrow margin of the figures actually ascertained on stocktaking.

One important point should be mentioned.

In case of fire the exact value of stock is not always easy to ascertain from memory or stock sheets, and where figures can be arrived at in such a way as described above, the inclination of insurance companies is to accept the stock at the value these would indicate.

Hitherto we have dealt only with Ledger Accounts, and the book which we have described is the Ledger, which may consist of a single volume, or which may comprise many.

Ledgers

Practically every firm keeps at least three ledgers—

1. The Sales Ledger, in which are kept the accounts of customers;
2. The Bought Ledger in which are kept the accounts of firms from whom goods are purchased; and
3. The Private Ledger, containing accounts of an important nature such as Capital Accounts, Profit and Loss and Partners' Drawings Accounts.

The first and second are sometimes called Personal Ledgers, because they are almost entirely used for transactions with persons and firms.

A fourth ledger is frequently described as the Impersonal Ledger, because many of the accounts refer to impersonal assets and liabilities such as stock, rent, bad debts, plant and fittings. This Ledger is also called the Nominal Ledger, because it contains the gains and losses. It is further called the General Ledger, as it usually contains Adjustment Accounts for all the other ledgers; these are explained in a subsequent chapter.

The Principal Book

The Ledger is commonly called the Principal Book, because it contains, in a summarized and classified form, all the transactions recorded in the subsidiary books. The commonest ruling is one which has columns for date, particulars of transaction, folio, and amount, on each longitudinal half of the Ledger page, the first half being for debit transactions, and the second half for credit transactions.

Double money columns are frequently met with, especially where transactions take place with foreign customers, one column being kept for currency amounts, and the other for the sterling equivalent. Double money columns are also used to facilitate the ruling off of an account at the exact date to which it has been settled.

In order to ensure ready reference to the accounts, an alphabetical index is provided either in the Ledger itself or separately.

The modern business Ledger is generally a loose-leaf one; is frequently subdivided into various sections for the purpose of convenience, and is usually made self-balancing. These matters will, however, be dealt with in subsequent chapters.

The Subsidiary Books

Firms do not, however, enter transactions straight into the Ledger. It is convenient and indeed necessary that other books shall be used for originating entries.

The subsidiary books in modern use are usually—

1. Purchases Book for all goods bought on credit.
2. Sales Book for all goods sold on credit.
3. Returns Inwards Book for all sales returns and allowances.
4. Returns Outwards Book for all purchases returns and allowances.

5. Cash Book to record all receipts and payments of money, all payments into and withdrawals from Bank, and all allowances of discount.

6. Petty Cash Book to record all small or petty payments for expenses incidental to the carrying on of the business; and sometimes for small purchases of goods.

7. Bills Receivable Book for the record of all acceptances received by the trader.

8. Bills Payable Book for the record of all acceptances given by the trader.

9. Journal for transfers, correction of errors, charging and crediting of interest, adjustments at balancing time, and other exceptional items.

The books mentioned above are connected with the Ledger, and are called Books of Original Entry. That is to say, every transaction that appears in such books and is extended into the money columns must also appear in the Ledger.

It should be noted, however, that the Cash Book is not only a Book of First Entry, but also, to some extent, a Principal Book, as there is no Cash or Bank Account in the Ledger. Further, the Cash Book is often said to be a part of the Ledger bound up separately for the sake of convenience.

This will be explained more fully in the chapter which deals with the Cash Book.

Number 9 of the books mentioned above is the Journal.

In the old days when double-entry was first introduced, the Journal was the book in which all original entries appeared, and in the theory of book-keeping at the present time, the whole of the nine books are really parts of the Journal.

Books Used for Noting Purposes

In addition to the above there are many other books of a useful nature which are not part of the accountancy scheme. These are books that contain useful notes such as particulars of orders given, prices quoted, contracts made, and claims preferred.

There are letter books, indexes, notes, receipts, inward quotations, data for organization and manufacturing purposes, books of analysis, costing, records of agreements, travellers order books, diaries, and books that deal with items that cannot yet be passed into the accountancy department.

For example: a firm may buy £100 worth of sugar, and makes an entry about the order in a book for the purpose kept in the buying office.

Journal

Where a firm has a great many transactions it is convenient to divide the Journal into parts. The first of these is the Day Book, which may be one book or many. Supposing during the month of January the firm sells £3,146 16s. 11d. worth of goods to its customers, it is quite easy, instead of entering all the hundreds of transactions separately into the Journal, to post them direct from the Day Book into the Ledgers. Then the total of the Day Book for the month can be entered as "posted" to the Sales Account in the Impersonal Ledger.

In this way double-entry is secured, because a credit entry on one side of a Ledger Account is balanced by a number of debits on the debit sides of a number of Ledger Accounts.

Another division is made when Cash is dealt with in a Cash Book, which still further relieves the Journal of a great number of records.

Indeed, the Cash Book can be reckoned not only as a part of the Journal, but as containing two important Ledger Accounts—the Bank Account and the Cash Account. This gives the opportunity of its being treated as a part of the Ledger. But this will be explained more fully when the Cash Book is dealt with. In this place we will presume that all amounts in the Journal and books of original entry, which really form part of it, are posted to the Ledger.

Now let us suppose that a man has a certain number of transactions during two weeks.

		£	s.	d.
Jan. 1.	Commenced business with cash	900	—	—
	Paid into bank	850	—	—
	Bank charged for cheque book		8	4
2.	Bought office furniture for cheque	120	16	8
	Paid for warehouse fittings by cheque	150	10	6
3.	Bought goods from A. Brown on credit	221	16	8
	Sold goods to F. Smith on credit	40	15	—
	Bought goods for cheque	48	10	6
4.	Drew cash for petty cash	10	—	—
5.	Sold goods for cash	5	7	8
6.	Paid rent by cheque	50	—	—
	Paid wages in cash	16	15	6
8.	Paid A. Brown by cheque	216	5	9
	Discount received		5	10 11
9.	F. Smith paid his account by cheque	38	14	3
	Discount allowed	2	—	9
10.	Bought goods from G. Roper	256	12	7
11.	Sold goods to T. Simms	168	10	2
12.	Returned Goods to G. Roper	4	10	6
13.	T. Simms returned goods	2	15	8
	Paid wages in cash	16	15	6
	Drew cheque for self	20	—	—
		£3,146	16	11

The Journal entries will appear as follows—

JOURNAL			Dr.			Cr.		
			£	s.	d.	£	s.	d.
19..	Cash	1	900	—	—			
Jan 1	To Capital A/c	2				900	—	—
2	Bank	3	850	—	—			
	To Cash	1				850	—	—
2	Office Expenses	4		8	4			
	To Bank	3					8	4
2	Office Furniture	5	120	16	8			
	To Bank	3				120	16	8
	Warehouse Fittings	6	150	10	6			
	To Bank	3				150	10	6
3	Purchases	7	221	16	8			
	To A. Brown	8				221	16	8
3	F. Smith	9	40	15	—			
	To Sales	10				40	15	—
3	Purchases	7	48	10	6			
	To Bank	3				48	10	6
4	Petty Cash	11	10	—	—			
	To Cash	1				10	—	—
5	Cash	1	5	7	8			
	To Sales	10				5	7	8
6	Rent	12	50	—	—			
	To Bank	3				50	—	—
6	Wages	13	16	15	6			
	To Cash	1				16	15	6
8	A. Brown	8	221	16	8			
	To Bank	3				216	5	9
	To Discounts Received	14				5	10	11
10	Bank	3	38	14	3			
	Discount Allowed	15	2	—	9			
	To F. Smith	9				40	15	—
10	Purchases	7	256	12	7			
	To G. Roper	16				256	12	7
11	T. Simms	17	168	10	2			
	To Sales	10				168	10	2
12	G. Roper	16	4	10	6			
	To Purchases Returns	18				4	10	6
13	Sales Returns	19	2	15	8			
	To T. Simms	17				2	15	8
13	Wages	13	16	15	6			
	To Cash	1				16	15	6
13	Drawings	20	20	—	—			
	To Bank	3				20	—	—
			£3146	16	11	£3146	16	11

In the old days the strict rule of double-entry would require that all these items should appear in the Journal. But as already explained, the Journal is now divided up into a number of books, and the amounts would be posted to the Ledger direct from these books.

But the reader should understand that purchases, sales, cash receipts and payments, and also returns, would be posted direct to the Ledger from the Day Book, Cash Book, and Returns Books.

The following is a copy of the Ledger Accounts—

LEDGER ACCOUNTS

1 Dr. CASH Cr. 1										
19..			£	s.	d.	19..		£	s.	d.
Jan. 1	To Capital	2	900	—	—	Jan. 2	By Bank	3	850	—
5	„ Sales	10	5	7	8	4	„ Petty Cash	11	10	—
						6	„ Wages	13	16	15
						13	„ Wages	13	16	15
2 Dr. CAPITAL Cr. 2										
						19..		£	s.	d.
						Jan. 1	By Cash	1	900	—
3 Dr. BANK Cr. 3										
19..			£	s.	d.	19..		£	s.	d.
Jan. 2	To Cash	1	850	—	—	Jan. 2	By Office Expenses	4	8	4
10	„ F. Smith	9	38	14	3	2	„ Office Furniture	5	120	16
						2	„ Fittings	6	150	10
						4	„ Purchases	7	48	10
						6	„ Rent	12	50	—
						8	„ A. Brown	8	216	5
						13	„ Drawings	19	20	—
4 Dr. OFFICE EXPENSES Cr. 4										
19..			£	s.	d.					
Jan. 2	To Bank	3	8	4						
5 Dr. OFFICE FURNITURE Cr. 5										
19..			£	s.	d.					
Jan. 2	To Bank	3	120	16	8					
6 Dr. WAREHOUSE FITTINGS Cr. 6										
19..			£	s.	d.					
Jan. 2	To Bank	3	150	10	6					

BOOK-KEEPING AND OFFICE WORK

7 Dr.		PURCHASES										Cr. 7	
19..						£	s.	d.					
Jan. 3	To A. Brown	.	.	.	8	221	16	8					
4	„ Bank	.	.	.	3	48	10	6					
10	„ G. Roper	.	.	.	16	256	12	7					

8 Dr.		A. BROWN										Cr. 8			
19..					£	s.	d.	19..				£	s.	d.	
Jan. 8	To Bank	.	.	.	3	216	5	9	Jan. 3	By Purchases	.	7	221	16	8
8	„ Discount	.	.	.	14	5	10	11							

9 Dr.		F. SMITH										Cr. 9		
19..					£	s.	d.	19..				£	s.	d.
Jan. 3	To Sales	10	40	15	-			Jan. 10	By Bank	3	38	14	3	
								10	„ Discount	14	2	-	9	

10 Dr.		SALES										Cr. 10			
												£	s.	d.	
							19..								
							Jan. 3	By F. Smith	.	.	.	9	40	15	-
							5	„ Cash	.	.	.	1	5	7	8
							11	„ T. Simms	.	.	.	17	168	10	2

11 Dr.		PETTY CASH										Cr. 11	
19..						£	s.	d.					
Jan. 4	To Cash	.	.	.	1	10	-	-					

12 Dr.		RENT										Cr. 12	
19..						£	s.	d.					
Jan. 6	To Bank	.	.	.	3	50	-	-					

13 Dr.		WAGES										Cr. 13	
19..						£	s.	d.					
Jan. 6	To Cash	.	.	.	1	16	15	6					
13	„ Cash	.	.	.	1	16	15	6					

14 Dr.		DISCOUNTS RECEIVED										Cr. 14			
									</						

15 Dr.				DISCOUNTS ALLOWED				Cr. 15			
19..				£	s.	d.					
Jan. 10	To F. Smith	9	2	—	9						
16 Dr.				G. ROPER				Cr. 16			
19..				£	s.	d.	19..	£	s.	d.	
Jan. 12	To Returns	18	4	10	6		Jan. 10	By Purchases	7	256	12 7
17 Dr.				T. SIMMS				Cr. 17			
19..				£	s.	d.		£	s.	d.	
Jan. 11	To Sales	10	168	10	2		Jan. 13	By Returns	19	2	15 8
18 Dr.				PURCHASES RETURNS				Cr. 18			
							19..	£	s.	d.	
							Jan. 12	By G. Roper	16	4	10 6
19 Dr.				SALES RETURNS				Cr. 19			
19..				£	s.	d.					
Jan. 13	To T. Simms	17	2	15	8						
20 Dr.				DRAWINGS				Cr. 20			
19..				£	s.	d.					
Jan. 13	To Bank	3	20	—	—						

TRIAL BALANCE

Dr.				Cr.			
	£	s.	d.	£	s.	d.	
1 Cash	905	7	8	893	11	—	
2 Capital				900	—	—	
3 Bank	888	14	3	606	11	9	
4 Office Expenses		8	4				
5 Office Furniture	120	16	8				
6 Warehouse Fittings	150	10	6				
7 Purchases	526	19	9				
8 A. Brown	221	16	8	221	16	8	
9 F. Smith	40	15	—	40	15	—	
10 Sales				214	12	10	
11 Petty Cash	10	—	—				
12 Rent	50	—	—				
13 Wages	33	11	—				
14 Discounts Received				5	10	11	
15 Discounts Allowed	2	—	9				
16 G. Roper	4	10	6	256	12	7	
17 T. Simms	168	10	2	2	15	8	
18 Purchases Returns				4	10	6	
19 Sales Returns	2	15	8				
20 Drawings	20	—	—				
	£3146	16	11	£3146	16	11	

It will be noticed from these Ledger Accounts that there are figures in the columns on the left of the £ s. d. columns. These are called posting folios, and help the reader to find the corresponding entry in another Ledger Account.

Now if the totals of each Ledger Account are copied on to a sheet of paper with double sets of cash columns, the debits being entered in the first set and credits in the second, these totals when added should agree. This list is called a Trial Balance, as shown in the adjoining column.

Principle of Proof

The principle of proof is based on the mathematical axiom that the whole is *equal* to the sum of all its parts.

It does not matter into how many parts or accounts we divide the total of the original transactions, namely £3,146 16s. 11d., the sum of all the separate parts or accounts must, when added, be *exactly equal* to the original amount. If it is anything different, it is proof positive

of an error; for the sum of all the parts cannot possibly be either greater or less than the original amount.

A Trial Balance can also be prepared showing only the differences in each Account. The two new totals will still agree with each other as follows—

		Dr			Cr.		
		£	s.	d.	£	s.	d.
16	BOUGHT LEDGER						
	Roper, G.				252	2	1
	SALES LEDGER						
17	Simms, T.	165	14	6			
	IMPERSONAL OR PRIVATE						
	LEDGER						
4	Office Expenses		8	4			
5	Office Furniture	120	16	8			
6	Warehouse Fittings	150	10	6			
7	Purchases	526	19	9			
10	Sales				214	12	10
12	Rent	50	—	—			
13	Wages	33	11	—			
14	Discounts Received				5	10	11
15	Discounts Allowed	2	—	9			
18	Purchases Returns				4	10	6
19	Sales Returns	2	15	8			
2	Capital				900	—	—
20	Drawings	20	—	—			
1	Cash	11	16	8			
2	Bank	282	2	6			
11	Petty Cash	10	—	—			
		£1376	16	4	£1376	16	4

Although the above totals agree with each other, they do not agree with any other totals, and there is, therefore, no corroborating proof that they are the correct totals.

In the absence of the debit and credit amounts of each account, they cannot be made to agree with the total of the original entries.

Principle of Proof

The proof of arithmetical accuracy in the second case is based on the mathematical axiom that, if equals be taken from equals, the remainders are *equal*.

		£	s.	d.	£	s.	d.
1	Cash	893	11	—	893	11	—
3	Bank	606	11	9	606	11	9
8	A. Brown	221	16	8	221	16	8
9	F. Smith	40	15	—	40	15	—
16	G. Roper	4	10	6	4	10	6
17	T. Simms	2	15	8	2	15	8
		£1770	—	7	£1770	—	7

We have seen that the debit and credit amounts were equal at start, being in fact, the same total but posted on opposite sides.

If we look through the Ledger Accounts, we find that wherever there were amounts on each side of an account, we have taken an equal amount away from both sides; that is, we have, in the accounts given in the adjoining column, taken away the amounts stated against their names.

Now, if from £3,146 16s. 11d., the original amount, we take away £1,770 os. 7d., we get the total of the second Trial Balance, viz., £1,376 16s. 4d.

Requisites of a Proper System

From what has already been said, the reader will probably have formed some idea of the requisites of a good system, but, for the sake of completeness, they may here be set down fully. A proper system of book-keeping is one which—

1. Ensures a permanent record of *all* a trader's transactions.
 2. Affords easy and ready access to the details of the transactions, if and when necessary.
 3. Summarizes the transactions in such a way, that the exact position with reference to each individual debtor or creditor may be easily seen at any time.
 4. Keeps a true record of all property coming in and going out.
 5. Keeps a true record of all gains and losses, from whatever source arising.
 6. Provides a method of internal check on the accuracy of the work.
 7. Enables a trader at any time to construct, from his books, a summarized list of his debtors and creditors, of his gains and losses, and of his property—in other words, enables him to prepare a Profit and Loss Account, and also a Balance Sheet.
- The so-called system of single-entry is seen at once to be very defective, for it does not fulfil the requirements mentioned in 1, 4, 5, 6, and 7.

Advantages of Double-Entry

Double-entry constitutes the best method yet ascertained to meet the needs mentioned above.

Below, the advantages of the system are succinctly set out under four headings—

1. *A Complete Record of all Transactions.* Through keeping both Personal and Impersonal

Accounts, it books up not only the purchases and sales, but also every gain or loss of discount connected with the settlement of accounts, and likewise records every disbursement actually made, whether for assets or for expenses.

2. *Full Information Concerning the Business.* The books tell the trader who are his debtors and his creditors, what property has come in and gone out, what assets he has, and what gains and losses he has made in the running of the business.

3. *Two Checks on the Clerical Accuracy of the Work.* Firstly, by means of a fortnightly

or monthly Trial Balance, it can be seen whether the debit amounts in the Ledger are equal in total to the credit amounts. Secondly, the difference between the assets and liabilities on the Balance Sheet, i.e. the capital of the business, must agree with the amount to the credit of the Capital Account in the Ledger.

4. *The Construction of a Trading and Profit and Loss Account and Balance Sheet from the Books themselves.* It is only necessary to take stock, and to enter the amount in the Ledger, in order to make the books complete and enable these final accounts to be prepared.

CHAPTER IV

PURCHASING GOODS AND SUPPLIES

METHODS of dealing with purchases differ very widely in commerce, and it is necessary that the office worker shall understand the reasons for these differences, in order to value the system which his own particular house adopts.

The first point to notice is that buying goods is regarded as a much more important act in some firms than in others, and, in consequence, the buyer occupies a position of greater responsibility.

Nearly all trading houses that depend upon buying and selling, and do not make any alteration in the goods in which they deal, rely very largely upon the skill of the buyer. To them the axiom "Well bought is half sold" has a very real meaning.

Manufacturers and brand owners, on the other hand, usually regard the selling department as all-important. Buying in many such cases is relatively simple, because the purchases are of raw materials and regular evenness of quality is more vital than fractional savings in price.

Where the Buyer Holds a Key Position

Where the profits are derived from trading, the buyer is often a man whose income depends upon his success in the actual purchasing of goods. He may be a proprietor, or a manager of a department, or an employee who receives a percentage of the profit on each purchase he makes.

It will be seen that the worker in the office in such a case would have little to do with the more responsible part of purchasing, and would find his work consisted in the clerical acts it involves.

But it would not follow that the skilful part of the work should receive no interest from him, for there have been many cases in which the clerk in the buyer's office has proved himself the right man in an emergency to take over the work and has ultimately become a professional buyer, or used his special knowledge to advance him to a controlling position.

The clerk, for instance, who is constantly dealing with price lists and quotations, and who may be present at many a stiffly fought battle between buyer and seller, in which sixteenths of

a penny per yard or ha'pennies on hundred-weights, have been furiously contended points, has every chance of mastering this important branch.

Routine Buying

As a rule, the opportunity for the man in the office to exercise his own judgment, would lie in those places where sources of supply are decided beforehand and the work of selection is relatively unimportant.

For example, a firm of needle manufacturers in Redditch use a special kind of steel in wire coils of various thicknesses. There are three firms in Sheffield who know their exact requirements, and guarantee a fixed quality, and these are on their supplying list.

In a case like this, as the requisitions come from the different departments, the duty of keeping up the stocks and purchasing new lots might easily be an office task, in which the clerk in charge of such work might obtain quotations and give the orders.

In many manufacturing businesses where large quantities of raw materials are used, contracts are frequently made so that the subject of price does not arise when the actual orders are sent.

In such cases buying is automatic, and no great skill is necessary.

Purchasing goods upon behalf of branches is another class of operations in which there is a great deal of clerical work, including the actual purchase of goods, where no question of price or terms arises.

Thus a firm has 200 retail branches, and the managers of these send up their weekly orders to head office. It is a serious step for the chief buyer to open an account with a supplying house, but when he has once done so, the orders for the goods of that firm, which are dealt in, come in almost automatically, and no question of price prevents the steady course of business.

The Purchasing Department

In large firms there will be a separate organization known as the Purchasing Department, whose duty it is to deal with the requisitions for goods, and to place the necessary orders. In

this case all departments have to buy through this one department, and are not allowed to deal direct with outside suppliers.

Such requisitions have usually to be made on an official form, and sent to the purchasing department. Spaces are provided in which to enter the stock on hand, and also the maximum and minimum stocks fixed for such articles or goods.

The following is a specimen form of such requisition—

close relationship with the actual turnover of the stock.

The Order Book

Orders for goods to be supplied are usually written even when the articles required are of small value. Such a system is of great value in business, as a perusal of the Order Book will then reveal exactly what orders have been given.

Many firms make a definite rule that no goods

REQUISITION FOR SUPPLIES			
To Manager		Date.	
PURCHASING DEPARTMENT.		Dept. No.	
Please obtain for Stock—			
„ „ „ „ „ Department—			
„ „ „ „ „ Customer's Order No.			
the goods mentioned below—			
Maximum Stock	Minimum Stock	Present Stock	
		Signed	
		<i>Manager,</i> Stock Department.	
Ordered from			
Date			
Order No		Signed	
		<i>Manager,</i> Purchasing Department	

The requisitions are usually issued to the departments in the form of carbon-copy books, so that each department keeps a carbon copy of the goods which it has requisitioned ; and this prevents it asking for the same goods twice over.

The maximum and minimum stocks are fixed with due regard to the efficient working of the entire system of supply, so that the buying department can guard against both overstocking and understocking. Such figures can be revised from time to time, and brought into

are to be obtained without the firm's printed order form, duly signed, and refuse to recognize verbal orders.

A printed and numbered counterfoil or carbon-copy book is used ; and all orders for goods to be supplied must be written on the official form, and signed by the person duly authorized. The form is perforated so that part may be torn off, leaving a counterfoil ; or so that the top copy may be detached, leaving a carbon copy in the book for reference.

The detachable part is sent to the supplier of the goods, and he is required to quote the Order No. on his invoice charging the goods. The order should describe clearly and accurately the article required, as any ambiguity might lead to a different article being supplied. The quantity required should also be definitely stated. When just *one* article is needed, it is a

one for the supplier, one for the accounts department, and the other for the purchasing department.

Sometimes the form is rather elaborate, and contains conditions for all orders issued by the firm, and also departmental references and signatures. The following is a specimen of a less elaborate form—

ORDER A. TRADER AND CO., LIMITED 1060 WINCHESTER AVENUE, LONDON, S.W.6	
No.	Date 19 ..
To	<div style="border: 1px solid black; padding: 5px;"> Stores Req. No. . .. Dept. Req. No. . . . </div>
Please supply the undermentioned Goods—	
TERMS AND CONDITIONS	
1. No verbal Orders recognized. 2. No variation of the above Order will be permitted without the Company's previous consent. 3. Order No. to be quoted on Invoice or it will be returned. 4. Advice Note to be sent when Goods are dispatched. 5. Monthly Account less per cent Cash Discount. 6. Delivery required per Railway. 7. Latest date for delivery.....	
For A. TRADER AND CO., LTD., <i>Manager,</i> Purchasing Department.	

common practice for the word "only" to be written after it; thus, "1 (only) Duplex Copier Pad." This prevents the 1 being taken to mean 1 dozen, or 1 packet, or 1 gross.

In large firms, orders for big quantities of goods for resale are sent by the buying department, which keeps a record of such orders, and sends a copy to the finance department, so that day by day, or week by week, a list may be prepared showing the firm's commitments.

Official Order Form

In large businesses, the official order forms are made out in sets of three copies for each order, each copy having a distinguishing colour,

There are still a great many traders who order their goods verbally from travellers and over the telephone, and, in a book of this nature, methods of treating such transactions must be recognized, even if the system may not be approved.

The statement recently made by a well-known commercial traveller who works over the Northern and Midland counties of England is illuminating.

"Though I turn over many tens of thousands per annum, it is the exception rather than the rule for me to obtain a written order. I do not call on men whose written order would be necessary, or who would be likely to dispute an entry in my pocket book."

These words, which reveal the highly pleasing fact that in many branches the British trader is a man of honour whose word is his bond, reveal a condition of things that has more than once caused surprise in a law court.

We recently read of a judge expressing wonder that sales and purchases involving quite substantial sums of money should be made in this way.

But even such transactions are usually noted in two books at the time of the transaction. One is the traveller's pocket book; the other is the buyer's Outstanding Purchases Book.

A list of outstanding purchases is important in any business, especially where orders are given by more than one person, as such a record prevents over-ordering.

A case occurred recently where the three partners in a firm occasionally acted as buyers, and all of them, knowing that a definite quantity of season goods, of a special kind, would be needed for the Christmas trade, ordered from three different firms.

The following is a specimen ruling of a useful way of keeping a record—

Outstanding Purchase Book allowing a page for each day, meets the case.

When the goods come in, they are, in large establishments, usually viewed by an inspector who, after careful examination, either passes or rejects them. He also checks weights and quantities, and is responsible for claiming for breakage or shortage, and, if necessary, for reporting on the condition of the goods.

Supplies for Branches

Supplies for Branches are sometimes dealt with in the same way. Much, however, depends on the situation of the branch, as to whether the goods will come first to the head establishment, and then be issued to the branch, or whether they will be ordered to be sent direct to the branch.

The branches send in their requisitions to the head office in the same way as departments. The question of carriage is all important. Double carriage, i.e. from supplier to headquarters, and then from headquarters to the branch, may add considerably to the cost of the goods. On the other hand, by buying in

OUTSTANDING PURCHASES

Date of Order	No. of Order	From whom Purchased	Description of Goods	Department	Requisition No.	Date Received	Inspector's Report

There are various methods by which the buying department keeps in touch with the warehouse at which goods are received.

Here a foreman is usually empowered to accept and sign for such goods. It should be an instruction from the office that in all cases goods should be signed for as "unexamined."

But rather more than this is advisable. Such a foreman should have information beforehand about the goods likely to arrive and the probable dates of arrival.

This is often necessary so that he shall allocate space of appropriate nature. More than this it is sometimes desirable that he should not accept goods without reference to a person in authority.

Advices sent out daily from the buying office to the warehouse, or a carbon copy of the

bulk for headquarters, much cheaper prices may be obtained. Where goods are sent direct from the supplier to the branch, the headquarters will not pass the invoice for payment until the branch manager has certified the correct receipt of the goods. Where, however, the goods are charged to the branches at selling prices, it is more usual to have them supplied from one central depot, and invoiced in the same way as goods to customers.

Separate Orders for Goods for Quick, Slow, and Part Delivery

Where different lines are required for delivery on different dates, it is usual to make separate orders for them even when they are to be obtained from the same supplier. Orders for goods to be made, which require long delivery,

should be kept separate from orders for stock articles, which can be delivered almost immediately.

The buyer or his clerk should keep the subject of date of delivery constantly before him, and where there is a prospect of goods being dispatched in, say, three lots, he should make three separate orders for them.

To instance a case: a wholesale firm orders from a manufacturer in August five hundred-weight of toffee for immediate delivery; two gross of fancy boxes of chocolates for the Christmas trade; and two hundredweight of lozenges with an advertisement or his own name printed upon them, are to be dispatched as soon as they are manufactured.

To mix up three such entries as parts of the same order would certainly complicate matters in an unnecessary way.

Fixing Definite Dates for Receipt of Goods Ordered

Where a large number of orders are being given for goods to be supplied, it is sometimes necessary to specify exact dates for delivery of each, in order to prevent congestion of incoming goods. In the case of perishable stores, the exact date of receipt must be known, in order that suitable storage may be provided.

Returns, and Claims for Allowances

The purchasing department is usually responsible for the return of rejected goods, and for all claims for allowances. No goods should be returned without the previous consent of the manager of the purchasing department, after consultation with the inspector and officials.

In those cases where it is desirable to return goods to the supplying house, it is the usual

that the goods are to be returned, an advice note should be sent as soon as this is done.

Where it is necessary to make claims for the bad condition of some of the goods, for breakages, shortages, and other reasons, it is usual to suggest the amount that should be credited and to ask for a credit note.

Sometimes the reply to such a request, intimates that the traveller will be empowered to make a suitable allowance on journey. This is often done where the traveller collects the account.

In such a case the invoice should be marked in some clear manner, probably in red ink, in order that the matter may not be overlooked.

In addition to this a pencil note in the Bought Ledger should be made in case no reference is made to the invoices when accounts are being paid.

Many small firms that work on a sound business method have the rule that the invoices shall always be turned up when payments are made.

In a very large firm this is not always possible. Hence it is desirable that some system be adopted by which such claims shall swiftly reach the actual Ledger Account, if only in the form of pencil notes.

Where an actual credit note is received this should not be simply attached to the invoice, but should pass through the books in a similar manner to the actual invoice itself.

Goods Received or Goods Inwards Book

In most businesses a record of goods inwards is kept in a special book, called a "Goods Received Book" or a "Goods Inwards Book." The following is a specimen ruling—

GOODS RECEIVED BOOK

Date Received	Carriers or Railway	Quantity or Weight	Description of Goods	Senders	Order No.

courtesy of most firms to intimate the fact that this is in contemplation, in order to give an opportunity for local disposal.

Should the result of the correspondence be

The assistant in charge of the receiving room will enter the contents of the cases or packages into this book when they have been unpacked.

As indicated above, in some firms, the office

notifies the warehouse foreman what goods are expected, and this enables him to check the correctness of the delivery.

In addition he may receive an advice note, which many firms send with goods, or he may find a packing slip enclosed with the goods, giving details of the contents of the package or case, and which will quote the receiving firm's own order number.

Questions arise from time to time in connection with invoices inwards, and with railway companies' and carriers' accounts, which often necessitate reference to such a book as this in order to be satisfactorily cleared up.

Checking the Invoices Inwards

When the invoice comes to hand, a clerk consults the Goods Received Book to ascertain if the goods have been correctly received, and fills in the Order Number if this has not already been done. He also checks the invoice with the order in the Order Book, to see whether the order has been completely and correctly executed.

He then checks the prices with those on the order, or with any quotation or estimate previously obtained.

The calculations on the invoice are then checked by another clerk; and, finally, the invoice is passed on to the accounting or paying department, so that advantage may be taken of any discounts that can be obtained for prompt payment.

In order to make sure that all this detail work has been properly done, the invoice is impressed with a rubber stamp, and the various clerks engaged in the work are required to sign their name or initials against the portion they performed. The following is a specimen impression of such a stamp—

Goods Received . . . . .	.. . . .
Prices Checked . . . . .	.. . . .
Extensions Checked . . . . .	.. . . .
Passed for Payment . . . . .	.. . . .

By this means errors and omissions can be traced to the party responsible for the detection of such.

The question of carriage on the goods is also of importance. It should be seen whether such goods were bought carriage paid or carriage forward, as it is quite possible for the carriage on goods to be paid in error.

Another point to be dealt with is that of packages or wrappers. If these are charged for,

they should be returned with all speed, and a Credit Note asked for, or else the firm's Debit Note sent.

In the case of biscuit manufacturers the actual tins are more valuable than the outside packages, and the tins cannot be returned until the contents have been sold, and no biscuit maker could keep his books in order were he to remain the proprietor of all the tins in all his customers' warehouses and shops and to keep a record of them.

A special discount is sometimes offered for payment of an account within seven days. There should, therefore, be as little delay as possible in getting invoices checked and passed for payment.

Filing the Purchase Invoices

When the invoices inwards have been dealt with by the checking staff, and duly entered up by the office assistants, they are then filed for reference.

In some cases, "Apron" files are used, one for each letter of the alphabet. These files, however, consist merely of two parts, a front and a back cover together with a hook or clasp device, and therefore allow dust to accumulate at the sides.

In other firms, "Box" files are used; they have the advantage of being dust-proof. In small firms, two or three box files might conveniently take the whole of the invoices inwards, but, in large firms, one will be kept for each letter of the alphabet. These files are certainly much cleaner and tidier than either the covered or uncovered "spike" files.

Quite a modern idea is to number the inwards invoices, to quote the number of the invoice in the Purchases Book, and to file such invoices in numerical order.

It is maintained that they can be found much more quickly by this method than when arranged in alphabetical order. There is but one number to an invoice; but there may be numerous invoices beginning with the same initial letter (say L), and even with the same vowel after that letter (La, Le, Li, Lo, Lu, Ly).

Calculating Devices

Calculation occupies a considerable part of the time of clerical workers, even though assistance may be obtained to some extent by the use of ready reckoners, books of tables, slide rules. Economies in time and labour may, however, be speedily effected by the use of the modern

calculating machines, which remove the mental drudgery and, at the same time, yield quick and accurate results.

So quickly can even long and intricate calculations be made by their means that they have justly earned the name of "lightning" calculators. Although the mechanism of these appliances is undoubtedly rather complicated, their efficient use for practical business purposes is merely a matter of practice. In a very short time, one can easily become a competent operator.

Calculating machines are of two kinds: adding machines, and true calculators.

The adding machines are subdivided into listing and non-listing machines.

The non-listing machines merely record the result of the addition on a dial or indicator.

The listing machines print on a roll the various items, and give the total as well. In adding up a long column of pounds, shillings, and pence, a clerk would have to add up only to a certain line in order to give the answer up to that line. The adding machine adds each line on to the next, and can, therefore, give the result at any particular line, as well as the total of all the lines.

The calculators proper are divided into key machines and barrel machines. The key machines are operated like a typewriter, by depression of the keys, the result appearing on a dial or register or indicator.

There are long rows of keys, containing vertically the digits 1 to 9, and horizontally the same digit on each row of keys. The various rows are required so that calculations may be worked in units, tens, hundreds, thousands, tens of thousands, and so on.

The barrel machines are operated by a crank or handle. The problem is set on the cylinder, and, by turning the handle, the calculation is performed, the result being shown in a register or indicator. The crank-operated calculators, however, are not adding machines.

These machines are in use in banks, insurance offices, and the offices of stockbrokers, manufacturing firms, drapery houses, provision houses, large wholesale and retail establishments. They perform a variety of calculations, including percentages, discounts, commissions, and foreign exchange.

As the calculations on these machines are made on the decimal system, it is necessary to translate all shillings and pence into decimals of a pound. Thus—

To calculate $\frac{1}{8}$ th per cent discount on £925 16s. 4d., the working would be—

$$\frac{925.816666}{800} = £1.15727083 \text{ or } £1 \text{ 3s. 2d.}$$

$$\text{or } 925.816666 \times .00125 = £1.1572708325 \text{ or } £1 \text{ 3s. 2d.}$$

There is no need to use more than the first three figures of the decimal answer; as, from these, after approximating the third figure if necessary, the answer can be given, mentally, correct to the nearest farthing.

Speed and Accuracy

The speed of the machines is remarkable. A list of the results obtained by the Comptometer shows a long addition of £ s. d. figures, consisting of 30 lines, each line containing four figures in the pounds—done in 34 seconds; a long addition of decimals, 30 lines, six figures in each line—done in 29 seconds; a long addition of weights in tons, cwts., qrs., lbs., 30 lines, two and three figures in the tons—done in 46 seconds.

No human brain could produce the required results with anything like the rapidity of these machines, these "brains of steel" as they have been not inaptly termed. In fact, the human "brain-box," as regards both speed and accuracy, makes a very poor show beside the mechanical brain-box.

Method of Working

The *modus operandi* of the machines is fairly simple. Multiplication is simply continued addition; for instance, adding 9 six times is just the same as multiplying 9 by 6. The unit figure 9 depressed six times would show 54 in the indicator; the tens figure 9 depressed six times would show 540 in the indicator; and so on.

Division is only continued subtraction; thus, subtracting 4 from 12 three times is just the same as dividing 12 by 4. With decimals, it is merely a matter of moving certain hooks or catches to their proper positions, and then working within these fixed limits.

Complicated calculations are, as a rule, worked in decimals. Cards are supplied which give the decimal equivalents (to six places) of all fractions—eighths, sixteenths, thirty-seconds, sixty-fourths, etc. Cards also show the decimal equivalents of fractions of a pound, of a ton,

cwt., etc. Thus, to check the value of 5,000 Rupees at rs. $5\frac{3}{4}$ d., the working would be—

$$\frac{17.515625 \times 5000}{240} = \text{£}364.90885416 \text{ or } \text{£}364 \text{ 18s. 2d.}$$

To check the conversion of 874,658 dollars at \$4.85 to the £, the working would be—

$$\frac{874658}{4.85} = \text{£}180341.855670 \text{ or } \text{£}180,341 \text{ 17s. 1d.}$$

The following are some of the most popular adding and calculating machines in use—

The Comptometer

This is a key machine. Many advantages are claimed for it by the manufacturers. It is said to be the fastest adding and calculating machine on the market. It adds, subtracts, multiplies, and divides, both in money and in weights and measures, as well in whole numbers as in fractions.

It is operated by an easy one-motion direct key action, in the same way as a typewriter. There are no cranks to turn, no operating levers to pull, and no motor bars to touch.

The automatic controls—"controlled key" register signals—guard against human errors in operation, and ensure absolute accuracy. It is in use on actual everyday work in thousands of offices.

In some machines, there is a danger that an improper depression of a key may bring up a wrong number, and thus throw out the calculation. In this machine, if a key is not properly depressed, the locking arrangement would fasten all the keys. The operator would have to clear the machine, and properly depress the key which threw out the calculation.

The Burroughs Calculator

There are over 100 styles of Burroughs machines, the favourite type being a key machine similar to a typewriter. Several advantages are claimed for it by the makers. It adds, subtracts, multiplies, and divides. Keyboards are made in various sizes, and are supplied in sterling (with or without farthings) or in decimals.

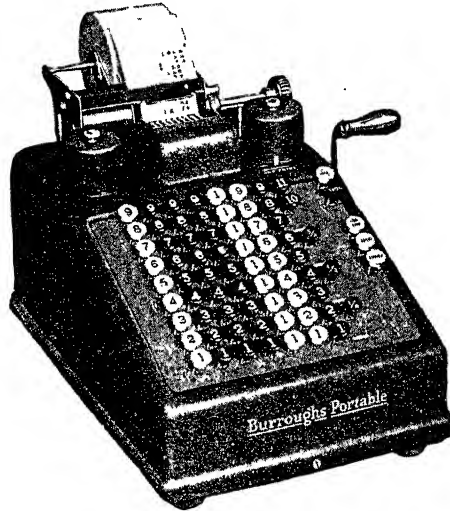
It handles all sorts of calculations with great rapidity; no problem seems too difficult for it. It is extremely simple to operate, and any junior after a short period of tuition can quickly obtain correct results.

The Monroe Calculator

This is a key machine, made in 12, 16, and 20 place sizes, and operated either by hand or by electrical drive. Many advantages are claimed for it by the manufacturers. The key to "locked-figure addition" provides a double check on the accuracy of each item recorded.

To add, subtract, multiply, or divide, it is simply necessary to touch the "plus" or "minus" bar. The decimal markers predetermine the correct position of the decimal in the answer.

The upper and lower dials are covered with glass, in order to prevent dust or dirt getting in.



BURROUGHS CALCULATOR

The Results and Proof Dials give visible proof of the accuracy of each operation. It is in use daily in business offices all over the world.

It can be supplied with £ s. d. adding and subtracting figures. It ensures accuracy, saves time, is easy to learn and operate, guarantees accurate decimal points. It takes all the hard work out of figures.

The Tim and Unitas Calculator

These calculating machines have a keyboard or keyplate, and are either hand-operated or electrically-driven machines.

Several advantages are set forth on their behalf by the manufacturers. They perform any figure problems, addition, subtraction, multiplication, and division, with unerring correctness. They are self-checking, and do not need

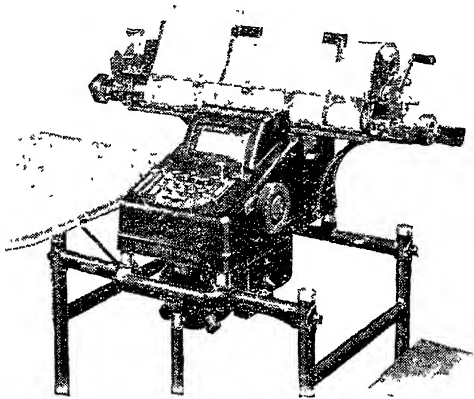
any repetition to ensure accuracy. They are easy to operate. The machine shows exactly what has been done, so that if interruptions occur the operator can continue from where he left off. The working out of the most complicated arithmetical problem is only a matter of practice.

The Unitas machine is similar to the Tim, but can carry two calculations at once. For

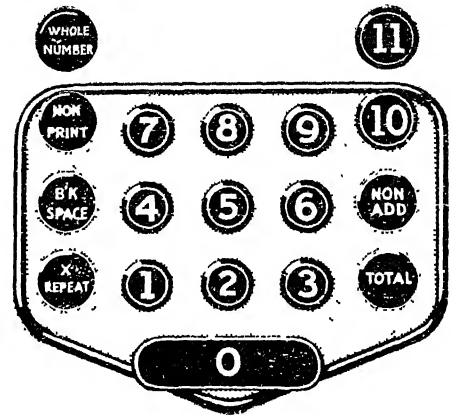
knob, and a special feature, unique to this machine and unobtainable on any other, is the ability to transfer automatically any figures in the result register to the setting levers without resetting by hand.

The Britannic Calculator

This calculator is, like the former, a crank-operated machine. It is made in two models,



"SUNDSTRAND" KEYBOARD



costing and interest work it is exceptionally advantageous.

The Sundstrand Machine

The outstanding feature of this machine is the keyboard which, so far as numerals are concerned, contains twelve keys only. The twelve keys, as shown in the illustration, representing figures 0 to 11, are all that is necessary to print and add items ranging from a penny to millions of pounds. The items are tapped out on the keyboard in exactly the same order as they would be written by hand or typed. A "touch" system of operation enables a very high speed to be developed.

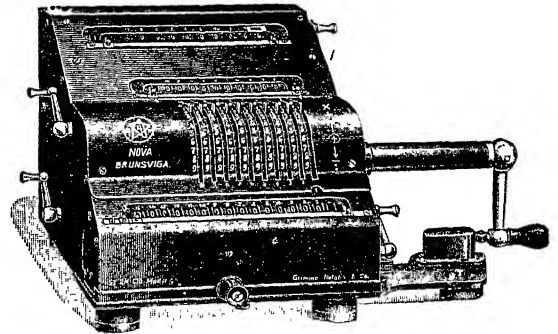
The Brunsviga Calculator

In contrast to the previous key-operated machines, the Brunsviga is a crank-operated calculator. Some of its principal features are the check register for quick reading of the sums set; tens transmission in the revolution register; quick easy clearing of all registers and the setting mechanism, and positive locking devices against faulty operation.

The automatic carriage movement is obtained by an easy horizontal pressure of the carriage

one for ordinary calculations, and one for special purposes. Several claims are put forward on its behalf by the manufacturers.

It is "all British." The parts are standardized and interchangeable. It is simple to



NOVA-BRUNSVIGA CALCULATOR

operate; can be learnt by any member of the staff after a short tuition.

It is portable, and practically noiseless. It is rapid and accurate. The mechanism is interlocking, rendering it impossible to make any incorrect movement. It is adaptable to all commercial calculations; invoice extensions,

foreign exchange, freight rates, percentages, actuarial work, costing, averaging, and pro rata calculations.

Inviting Tenders

The clerk in the buying department may be entrusted with the task of buying the ordinary necessities and some of the fittings and other requirements of the office.

He will find that much cheaper prices may be obtained by inviting several firms to tender than by simply placing the order with one particular firm. Printing and stationery may be required in large quantities, and a considerable reduction in cost may be effected by inviting estimates and quotations previously. Catalogues form an expensive item in many firms.

As the result of inviting tenders, they can often be obtained quicker and cheaper than by merely placing an order in the usual way. Competition is usually a great trade incentive to cheaper and quicker work.

Should it be necessary to obtain quotations from firms, definite information should be given with respect to the quantity, quality, packing, and delivery, in order that the lowest possible prices may be obtained.

Estimates and Quotations Received

Inwards estimates and quotations are usually filed in box or book files, either in alphabetical order or under suitable subject-matter, whichever is more convenient for reference.

Procedure of Purchasing Department

The purchasing department will have lists and catalogues available, also quotations, and will thus be enabled to ascertain the cheapest

source of supply. A loose-leaf current index is kept, which readily furnishes names and addresses of suppliers of regular lines or of the materials for their manufacture.

A card or sheet will be kept for each article or material, and it will specify the quantities and prices at which it can be bought, and the packages in which it is supplied.

A similar index is kept of the special lines required by customers. A separate card describes the goods required, and the source from which they can be obtained, together with the current price, thus enabling an order for special lines to be put through very quickly.

Passing on to other phases of the work the buyer clerk may have to interview travellers. Here the task becomes a little more difficult as there is the human nature element to consider.

The buyer must not only preserve his sense of proportion when under the spell of a very gifted salesman, but must develop the power of discovering what the awkward salesman has to offer that will be of value to him.

One of the finest qualities of a good buyer is courtesy. It is the foundation of sound judgment.

It is wise to see all travellers at least once. It is unwise and unkind to open out hopes of future trade where none exists.

The buyer should study the markets, study his customers' needs, and study what other firms are doing. This sounds formidable, but it can become a case for quick glances if the glance is trained to learn the facts quickly.

It is the buyer's duty to keep well in touch with the selling and advertising departments; and here he should realize that it is equally the duty of sales manager and advertising manager to keep in touch with him.

CHAPTER V

RECORDING PURCHASES

WHEN a firm purchases goods for resale or for purposes of manufacture, usually three kinds of books are used before the purchase has been fully dealt with. These are—

1. The order book in which a copy of the order is kept. This has been explained in the previous chapter.

2. The book of original entry which has different names in different firms, such as the Bought Book, the Bought Day Book, the Invoice Book, the Purchases Journal, and the Inward Invoice Book.

3. The Bought or Purchases Ledger.

In some cases it is advisable to make notes especially where it is desired to know the full extent of commitments for stock-taking purposes. Orders in transit or for future delivery are really of the nature of "contracts" during the period between the order being given and the goods being delivered.

The Bought Book, like all other books of original entry, may still be regarded as a part of the Journal, kept separate for purposes of convenience.

In many business houses the invoices inwards (that is, for goods and other items bought) are copied direct into the Purchases Book; from this fact it is sometimes called the Invoice Book.

It contains columns for date, particulars of transaction, ledger folio, details, and total. The two money columns are added up, and the amounts carried forward page by page until the end of the month. The separate entries are posted day by day to the credit of the various personal accounts in the Bought Ledger, and the monthly total direct to the debit of the Purchases Account in the General or Impersonal Ledger, thus completing the double-entry, and therefore dispensing with the necessity for a Journal entry to effect the same result.

The Guard Book

In some houses an old-fashioned method is still used, and where inward transactions are very few, it is found to be quite workable.

This consists in keeping a Guard Book which must be wide enough to allow for invoices to be pasted in, and yet permit of cash columns to appear on their right.

The top edge for a width of one or two inches only, is pasted in order that the invoice can be folded in such a way as to leave the name of the supplying house visible.

In the money columns at the side is extended the amount of each invoice. This book is used as a posting medium, in the same way as the ordinary Purchases Book. It certainly saves the labour of copying the invoices into the Bought Book, and provides an authentic, first-hand record; but the size of the book makes it very cumbersome, while much time is wasted in folding the invoice to the required shape and size, and also in unfolding and refolding, whenever reference is made to it.

The more usual method is the direct entry of the inward invoices into the Purchases or Inward Invoices Book. The invoices can then be filed away in an Alphabetical Invoice File which can be of book, box, or vertical kind. This not only ensures the safe keeping of the original invoices, but also allows ready reference to them if and when necessary.

In some businesses, however, the Bought Invoices are numbered consecutively, and the number of the Invoice is quoted in the Purchases Book. The invoices are then filed away in *numerical order*, this method being thought to afford an easier and quicker means of reference than the alphabetical method.

In addition to purchasing goods for resale or as material for manufacture, business firms purchase articles for use in office, factory, and warehouse.

Such assets as plant and machinery, furniture and fixtures, trade utensils such as scales and weights are among these items.

Then there are goods, the cost of which is part of the expense of running a business, such as stationery, petrol, and coal.

A simple method of treatment where these plant, expenses, and fittings items are not numerous, is to enter them directly into the Journal.

Where, however, the items tend to be numerous, they are passed through a Columnar Purchases Book and analysed into appropriate columns.

Hence, it is the rule to keep the (non-tabular)

Purchases Book entirely for goods inwards for resale, or raw materials for manufacturing purposes.

Special attention must be paid to this point, as if any of these items should inadvertently get charged up to the Purchases Account, the gross profit shown by the Trading Account would be altogether inaccurate and misleading.

Worked Example

In order that the method described above may be clearly understood, we will now show how the purchases of a trader during a month are dealt with.

- Mar. 1. Purchased of A. Rompton—
35 yds. of brown Alpaca, 48 in., at 3s. 11d. per yd.
20 yds. of black Cashmere, 42 in., at 6s. 6d. per yd.
5. Bought of B. Trampers—
42 yds. of fawn Wool Repp, 54 in., at 8s. 6d. per yd.
30 yds. of mole Velour Cloth, 54 in., at 6s. 6d. per yd.
10. Bought of the Black Colliery Company—
5 tons of Small Nuts at 22s. 6d. per ton.
12. Purchased from P. Simpson—
56 yds. of Fancy Sateen, 40 in., at 1s. 11d. per yd.
36 yds. of saxe Velveteen, 36 in., at 5s. 6d. per yd.
15. Bought from the Ivor Stationery Company—
Paper, etc., as per Invoice, £10 15s. 8d.
20. Purchased from the City Furniture Company
3 Office Desks at 92s. 6d. each.
3 Stools at 10s. 11d. each.
22. Bought of D. Vampire—
65 yds. of brown Velvet, 38 in., at 12s. 9d. per yd.
50 yds. of grey Velvet, 40 in., at 13s. 9d. per yd.
29. Purchased of F. Hopkins—
45 yds. of Art Silk Brocade, 38 in., at 2s. 11d. per yd.
55 yds. of rich Black Brocade, 36 in., at 8s. 6d. per yd.
30. Received Notice of Rent due for Quarter, £67 10s. 0d.
Received Demand Note for Rates for Quarter, £20 15s. 6d.

The following copy of the ordinary Purchases Book or Invoices Inward Book, shows their record in a book of original entry.

It should be noted that the items in the first column, though totalled in each invoice and extended into the second column, are not ruled off between the separate invoices. This is to allow of two totals at the bottom of the column which should agree, and thus form a check on the accuracy of the addition, page by page, of the Purchases Book.

ORDINARY PURCHASES BOOK

Date	Particulars	Led. fol.	Details			Totals		
			£	s.	d.	£	s.	d.
19. Mar. 1	A. Rompton 35 yds brown Alpaca 48 in. 3/11 20 yds black Cashmere 42 in. 6/6	81	6	17	1	13	7	1
5	B. Trampers 42 yds fawn Wool Repp 54 in. 8/6 30 yds mole Velour Cloth 54 in. 6/6	82	17	17	—	27	12	—
12	P. Simpson 56 yds. Fancy Sateen 40 in. 1/11 36 yds. saxe Velveteen 36 in. 5/6	84	5	7	4	15	5	4
22	D. Vampire 65 yds. brown Velvet 38 in. 12/9 50 yds grey Velvet 40 in. 13/9	87	41	8	9	75	16	3
29	F. Hopkins 45 yds. Art Silk Brocade 38 in. 2/11 55 yds rich Black Brocade 36 in. 8/6	88	6	11	3	29	18	9
			£161	19	5	£161	19	5

We will now deal with the items in the list of transactions which are not of the nature of goods for resale, materials for manufacture.

These should be journalized, thus—

JOURNAL

Date	Particulars	Led. fol.	Dr.			Cr.		
			£	s.	d.	£	s.	d.
19. Mar. 10	Coal To Black Colliery Company 5 tons Small Nuts at 22s. 6d.	92 83	5	12	6	5	12	6
15	Stationery To Ivor Stationery Co. Paper, etc., as per Invoice	93 85	10	15	8	10	15	8
20	Furniture and Fittings To City Furniture Co. 3 Office Desks at 92/6 £13 17 6 3 Stools at 10/11 1 12 9	94 86	15	10	3	15	10	3
30	Rent Rates and Taxes To Outstanding Accounts	95 95 89	67	10	—	88	5	6
			£120	3	11	£120	3	11

Columnar Purchases Book

The Columnar Purchases Book contains a number of columns. Two columns are used as in the ordinary Purchases Book, and the others are used for special items.

The total column is used as a check on the arithmetical accuracy of the work. The vertical addition of this column must agree with the horizontal or cross cast of the analytical columns.

COLUMNAR PURCHASES BOOK

(Page 61)

Date	Particulars	Led fol	Details	Totals	Purchases	Coal	Stationery	Furniture and Fixtures	Rent, Rates, and Taxes
19.. Mar. 1	A. Rompton 35 yds. brown Alpaca 3/11 48 in. 20 yds. black Cashmere 6/6 42 in.	81	£ s. d. 6 17 1 6 10 -	£ s. d. 13 7 1	£ s. d. 13 7 1				
5	B. Trampers 42 yds. fawn Wool Repp 8/6 54 in. 30 yds. mole Velour 8/6 Cloth 54 in.	82	£ s. d. 17 17 - 9 15 -	£ s. d. 27 12 -	£ s. d. 27 12 -				
10	Black Colliery Co. 5 tons Small Nuts 22/6	83	£ s. d. 5 12 6	£ s. d. 5 12 6	£ s. d. 5 12 6				
12	P. Simpson 56 yds. Fancy Sateen 1/11 40 in. 36 yds. saxe Velveteen 5/6 36 in.	84	£ s. d. 5 7 4 9 18 -	£ s. d. 15 5 4	£ s. d. 15 5 4				
15	Ivor Stationery Co. Paper, etc.	85	£ s. d. 10 15 8	£ s. d. 10 15 8			10 15 8		
20	City Furniture Co. 3 Office Desks 92/6 3 Stools 10/11	86	£ s. d. 13 17 6 1 12 9	£ s. d. 15 10 3				15 10 3	
22	D. Vampire 65 yds. brown Velvet 12/9 38 in. 50 yds. grey Velvet 13/9 40 in.		£ s. d. 41 8 9 34 7 6	£ s. d. 75 16 3	£ s. d. 75 16 3				
29	F. Hopkins 45 yds. Art Silk Brocade 2/11 38 in. 56 yds. rich Black Brocade 8/6 36 in.	88	£ s. d. 6 11 3 23 7 6	£ s. d. 29 18 9	£ s. d. 29 18 9				
30	Outstanding Accounts Rent, Rates and Taxes	89	£ s. d. 67 10 - 20 15 6	£ s. d. 88 5 6					88 5 6
				£282 3 4	161 19 5	5 12 6	10 15 8	15 10 3	88 5 6
				G.L. 91	G.L. 92	G.L. 93	G.L. 94	G.L. 95	

The items shown above are posted to Ledger Accounts, thus—

BOUGHT OR PURCHASES LEDGER

81 Dr.	A. ROMPTON	Cr. 81
	19.. Mar. 1 By Goods 61	£ s. d. 13 7 1
82 Dr.	B. TRAMPERS	Cr. 82
	19.. Mar. 5 By Goods 61	£ s. d. 27 12 -
83 Dr.	BLACK COLLIERY COMPANY	Cr. 83
	19.. Mar. 10 By Goods 61	£ s. d. 5 12 6

RECORDING PURCHASES

43

84	Dr.	P. SIMPSON										Cr.	84		
								19.. Mar. 12	By Goods			61	£ 15	s. 5	d. 4
85	Dr.	IVOR STATIONERY COMPANY										Cr.	85		
								19.. Mar. 15	By Goods			61	£ 10	s. 15	d. 8
86	Dr.	CITY FURNITURE COMPANY										Cr.	86		
								19.. Mar. 20	By Goods			61	£ 15	s. 10	d. 3
87	Dr.	D. VAMPIRE										Cr.	87		
								19.. Mar. 22	By Goods			61	£ 75	s. 16	d. 3
88	Dr.	F. HOPKINS										Cr.	88		
								19.. Mar. 29	By Goods			61	£ 29	s. 18	d. 9
89	Dr.	OUTSTANDING ACCOUNTS										Cr.	89		
								19.. Mar. 30	By Sundries			61	£ 88	s. 5	d. 6

GENERAL OR IMPERSONAL LEDGER

91	Dr.	PURCHASES										Cr.	91
19.. Mar. 31	To Sundry Creditors	.	.	61	£	s.	d.						
					161	19	5						
92	Dr.	COAL										Cr.	92
19.. Mar. 31	To Sundry Creditors	.	.	61	£	s.	d.						
					5	12	6						
93	Dr.	STATIONERY										Cr.	93
19.. Mar. 31	To Sundry Creditors	.	.	61	£	s.	d.						
					10	15	8						
94	Dr.	FURNITURE AND FITTINGS										Cr.	94
19.. Mar. 31	To Sundry Creditors	.	.	61	£	s.	d.						
					15	10	3						
95	Dr.	RENT, RATES, AND TAXES										Cr.	95
19.. Mar. 31	To Sundry Creditors	.	.	61	£	s.	d.						
					88	5	6						

Advantages of Columnar Purchases Book

The advantages of the Columnar Purchases Book are—

1. The items are subjected to continuous daily analysis, thus saving the labour of monthly dissection and summarizing.

2. It lessens the amount of Ledger posting, as the totals of the analytical columns can be posted to their real and nominal accounts in the Ledger at the end of the month; whereas, if the items had to be journalized, it would mean posting each separate transaction to the Ledger.

3. It keeps the work up to date. At the end of the month, there is no waiting for the analysis to be made; it is already done, and the analytical columns merely require to be added.

Purchases Journal

A slightly modified form of Purchases Book, known as a "Purchases Journal" is also in use in many firms.

The said Purchases Journal contains columns for date of purchase, serial number of invoice, name of creditor, ledger folio, and amount, with extra columns for analysis if the nature of the business so requires. The object of this book is to avoid the labour of copying the bought invoices into the Purchases Book in detail.

The following is a specimen—

PURCHASES JOURNAL

Date	No. of Invoice	Name of Creditor	Led. fol.	Amount		
19..				£	s.	d.
Mar. 1	121	Rompton, A.	81	13	7	1
5	122	Trampers, B.	82	27	12	—
12	123	Simpson, P.	84	15	5	4
22	124	Vampire, D.	87	75	16	3
29	125	Hopkins, F.	88	29	18	9
				£161	19	5

The practice obtains of numbering consecutively all the invoices inwards, which facilitates immediate reference to them at any time, and then filing them in pigeon holes or other convenient place.

The invoice number is often recorded in the Ledger, so that direct reference can be made

from the Creditor's Account to the original invoice if necessary.

Short Credit Purchases

The practice obtains in some firms of keeping the invoices for expenses and sundries on a file, and bringing them into account only when they are paid at the end of the month.

This method saves a lot of time in writing up the Purchases Book and Ledger, and is perhaps convenient where such accounts are not very numerous, and are regularly paid at the end of each month; but it cannot be regarded as an efficient system of accounting.

It means much less book-keeping, it is true, but there is the risk of invoices being lost or overlooked, or paid twice over, thus vitiating the accuracy of the accounts; while the facilities for ready reference to any particular transaction are sensibly decreased.

As often happens in business, however, it is frequently a question of compromise between cost and convenience, and the inferior system is often considered "good enough," where apparently the same results are obtained.

Rebates

The purchase price of goods is sometimes subject to a rebate, that is, a drawback or deduction in price, if a certain quantity of goods is bought within an agreed time. Thus, a cycle firm is sometimes offered tyres at a fixed price, less a rebate of so much per tyre, provided that a stipulated quantity is purchased during the season. Dealers in photographic papers, and tracing papers and linens, etc., are also allowed similar rebates.

Owing to the uncertainty of their amount, these abatements cannot be dealt with in the Purchases Book. At the end of the given period, when the rebate is granted, a Journal entry must be passed through the books, debiting the amount of the allowance to the Creditor's Account, and crediting a similar sum to the Purchases Account.

Dealing with a Joint Purchase

Another point should be noted—

In many cases goods are purchased for a joint speculation with other people. In such cases the transactions must be kept separate from the others, either by being journalized, or by being entered in a separate Purchases Book.

CHAPTER VI

OPENING NEW ACCOUNTS

SUCH a large percentage of the world's trade is done on credit in some form or other, that the granting of credit is a subject that every one in business should study.

In the retail trade a few years ago there was a growing opinion that the days of the credit trader were over, for cash stores increased in numbers and popularity, but of recent years the tendency has changed and the pendulum swings towards increased credit.

The competition of mail order traders who offer goods, with immediate delivery, for payment over many months, or even two, three, or four years, has forced the retailer to follow the example in many trades. The persistent story from America, that much of the new prosperity of the United States springs from increased retail buying on credit, has also had a marked effect on the British shopkeeper.

All this works upward right through the whole of business. The retailer who gives credit can easier obtain credit than can the cash dealer, for the obvious reason that a man who sells for cash only, and does not pay cash, is a natural subject of doubt and investigation.

The act of opening a new account with a buyer is one that requires much care and discretion.

In this volume, much more space is given to the wholesaler's, importer's, exporter's, and manufacturer's office, than to that of the retailer, for the reason that the office is a relatively small part of the retail business.

But reference must none the less be made to the retailer's attempts at solving the problem of giving credit to a new customer and increasing it to an old one.

Much credit is given as a result of personal knowledge of the customer, his method of life, his address, his local reputation. Frequent cash transactions at a shop easily change into the weekly account, and the trader is able to keep a check upon this with reasonable care.

In the large stores and shops the Sanction Office has come into being.

And where this is in operation no employee may send out goods on credit without reference to this department.

The officials in charge of this sanction office

are usually well equipped for their task with knowledge, experience, and long memories that enable them to make swift decisions which are very rarely unwise.

Trade protection societies, which are organizations often brought into being by the retail traders themselves, assist their members by passing on information likely to protect traders from persons of known dishonesty, and are often in close touch with the sanction offices of retail firms.

In the wholesale business the circumstances about granting credit to a new buyer are necessarily different from those in the retail trade.

In the retail trade the customer comes to the shop; in the wholesale trade the seller seeks out and calls upon the buyer.

This latter fact has an important consequence that many persons working in offices may overlook. It is that there is even more risk of loss to a wholesale or manufacturing house, through over-cautious treatment of a first order, than there is in granting credit to a bad payer without inquiry.

Let us illustrate this point from an actual case.

A firm of manufacturers received an order from a trader who had not purchased goods before, and the clerk in charge of the ledgers, to whom all post orders were passed, sent the usual rather stilted letter covering a *pro forma* invoice.

Back came the reply—

"I do not think, after all, that I will do business with your firm. For over twelve years your representative has been very earnest in pressing for my business, and I inferred from this persistence that you really desired to trade with me on the ordinary credit terms I obtain elsewhere.

"As, at the very time I changed my mind, you appear to have changed yours, it seems advisable for me to continue with my old supplying houses. The invoice is returned herewith."

In this case the good offices of the traveller prevented the account from being lost, but it involved a special journey and much pleading.

It costs a firm a considerable sum of money for the traveller, at frequent intervals, through

many years, to call upon a potential buyer. Much nervous strength and much valuable time is given to the work, and all with the hope of an ultimate harvest. There is something wrong when all this spade work and outlay is neutralized by a stiff formal letter.

In this special case the account became a very valuable one when at last it was opened, as it was not only a large account but was also a lever for introducing the goods into the whole district. The trader was one whose example was swiftly followed by others.

Yet twelve years diligent efforts were nearly thrown away by the "business like" attitude of the office.

This case is referred to at some length because it is typical of one of the ways in which trade is lost by the method of the office failing to fit in with the method of the selling department.

But there are many offices in which the clerk or book-keeper, who sanctions credit to new customers, has rather larger powers of discretion.

In such cases, the person so empowered should not dismiss every opening order with a *pro forma* invoice and a request for payment before goods are sent.

If travellers are employed, information should be obtained from them, about all traders who have been called upon and who have been invited to buy goods on credit.

This does not mean that all such traders should be granted credit without inquiry. But it should mean that exactly the same procedure should follow whether an opening order were given to the traveller or posted to the house.

To make this clear: In many lines of trade a traveller has other means of ascertaining a firm's standing than by asking for references. There are a great number of traders in the country who would be perfectly amazed were they invited to give such guarantees with an opening order of a few pounds.

Business is frequently lost in such cases by the first order going direct; because, whereas the traveller is a sane man and a bit of a diplomat, the person who deals with the order in the office may be bound hand and foot by an idiotic rule, or is himself unable to see the obvious duty of harmonizing the office attitude with that of the salesman.

Every office should have a salesman's report on every possible customer who has been personally invited to buy on credit, and who is considered by the salesman to be a good risk.

If it is the invariable rule to obtain references in every case, the above statement will not apply. Rules must be carried out by the staff, however unwise those rules may be.

Receipt of a Small First Order

On receipt of a small first order, a *pro forma* invoice is usually sent. This is an invoice made out "for form's sake" in order to show what the cost of a certain quantity of goods would come to. Such an invoice is forwarded by business firms to a new customer from whom they have received a small order, but with whom they have no credit Ledger Account. It is similar to an ordinary invoice; but it contains at the top a letter to the following effect—

Dear Sir,

We thank you for your esteemed order of yesterday's date, and send you, below, invoice for goods ordered. As we have not a credit Ledger Account with you, we shall be pleased to forward the goods on receipt of a remittance for the amount specified hereon.

Yours faithfully,

Receipt of a Large First Order

On the receipt of a large first order from a new customer, the firm will naturally desire to execute it. The firm must, however, act prudently, as carelessness in the matter may result in making a bad debt.

The firm will, therefore, ask the customer to furnish the usual trade references.

Where transactions are likely to be large, and there are no ordinary channels through which information can be obtained, references are desirable, because one of the most dangerous kinds of account is that in which a few transactions for relatively small amounts are carried through in a highly satisfactory manner; payments being made promptly and in a business like form; and finally a very much larger order is received, and then the discovery is made that the buyer is far from being desirable.

The best solution is to use the services of one of the Trade Protection Societies or Agencies in such a case. Where there is cause to suspect fraudulent intention, from the sudden leap in volume of goods ordered, such an agency would almost certainly be able to throw light upon the case.

Membership of such associations can be obtained by payment of an annual fee and a small charge for every inquiry made above the prescribed number.

Taking Up References

In making inquiries of firms it has been found that the replies are apt to be rather vague unless definite questions are put. A promise should be made to treat as confidential any information furnished, and also to render reciprocal services if necessary. A stamped addressed envelope should always be enclosed. The following is a specimen inquiry—

Dear Sirs,

Messrs. Nemo & Co., desire to open an account with us, and have furnished your name as a reference. We shall be glad, therefore, if, in strict confidence, you will let us have whatever information you possess with respect to their financial position, and their general trustworthiness. We should also be greatly obliged if you would let us know how long you have had dealings with them, the extent of the credit, and whether payments were regularly made under discount or otherwise.

Thanking you in anticipation, and assuring you of our willingness to render you a similar service whenever the occasion arises, We are,

Yours faithfully,

The following is another specimen of an inquiry concerning the standing, reputation, and financial capacity of a firm asking for credit—

Dear Sirs,

Messrs. Nemo & Co., who wish to open an account with us, have referred us to you for inquiries.

We shall be greatly obliged if you will inform us how long you have had dealings with these people; if you found them prompt and regular in their payments; and if you consider them credit worthy to the extent of £200.

We assure you that any information you care to give us will be treated as strictly private and confidential, and that we shall at all times be ready to reciprocate your kindness.

Yours faithfully,

The following is a further form of inquiry, in which the name of the firm which forms the subject of inquiry is not even mentioned, but is written on a separate slip of paper and enclosed in the letter—

Dear Sirs,

The critical state of trade, and the large number of failures recently, compel us to exercise the utmost caution, and to use the greatest discretion in allowing credit to new customers.

We are therefore making numerous inquiries, and should be greatly obliged for any information concerning the solvency of the firm mentioned on the enclosed slip of paper.

They have sent us an order for £200 worth of goods, but as we have not previously done business with

them, we are naturally awaiting the result of our inquiries.

Thanking you in anticipation, and assuring you that any information you give us will be treated with the greatest secrecy, We are,

Yours faithfully,

Replies to Inquiries

The replies to inquiries may be vague, definitely favourable, decidedly unfavourable, or unable to give the information asked for. The following is a specimen favourable reply—

Dear Sirs,

In reply to your letter of yesterday's date, we are pleased to inform you that, so far as our experience and records go, the firm mentioned is quite honourable and trustworthy. We have done business with them for several years; and the accounts have always been regularly and promptly paid, usually on discount terms. We consider them a fair risk for the amount you mention, and should have no hesitation ourselves in granting them credit to this extent.

We give you this information in strict confidence and without responsibility in the matter.

Yours faithfully,

The following is a specimen of a very unfavourable reply, which should, of course, be compared with replies from other sources, before a definite decision is arrived at—

Dear Sirs,

In reply to your letter of yesterday, we regret that we cannot give you a very satisfactory account of the firm you mention.

The first two or three transactions left nothing to be desired. Business relations were pleasant, and accounts were promptly settled, though never on discount terms. After that, payments became very irregular; frivolous complaints were made; in our opinion, with a view still further to delay payment. Supplies had, at times, to be stopped till certain payments had been made. We ourselves would not think of giving them credit for more than half the amount stated by you.

We give you this information in the strictest confidence, and without prejudice or responsibility in any way.

Yours faithfully,

The following is an example of the "unable to say" type of reference letter—

Dear Sirs,

In reply to your letter of yesterday, we regret we cannot give you any definite information concerning the financial resources of the firm you mention, or of their method of doing business, or of the general reputation they enjoy in their locality. We have had only two transactions with them; and, in each case, we insisted on cash down before delivering the goods.

Not long ago, there were rumours that the firm were in great financial straits, and were expected to cease

payments altogether. There were also rumours that the partners had been indulging in hazardous speculations far beyond their means.

We give you this information in strict confidence, and without assuming the least responsibility for our statements.

Yours faithfully,

The following is another specimen of the "favourable" type of reference letter—

Dear Sirs,

In reply to your letter of yesterday's date, the firm you mention enjoy an excellent reputation here. The funds at their disposal are not believed to be over large, but the principals are recognized as first-rate men of business, and are thought to be deserving of full credit. We ourselves should have no hesitation in trusting them to the extent mentioned in your letter.

We give you this information in strict confidence, and remain,

Yours faithfully,

In this connection it is well to say something about reference giving.

The clerk or book-keeper may at any time be required by his employer to reply to a question similar to those above.

In forming such a reply it is advisable, where possible, to have the opinion of the traveller who actually calls upon the man.

Where the traveller's advice is not available, the Ledger Account should be read intelligently, and dates of settlements compared.

More than this, a little imagination will aid towards a helpful judgment and result in a few vital facts being stated.

Let us take a concrete case.

The firm manufactures table jellies. The inquiry comes from a miller.

The Ledger shows prompt payments on journey.

"A good account. Pays regularly" the book-keeper reflects.

But such a statement would be entirely incomplete. A baker doing a big bread business may buy £2 worth of table jellies twice a year to stock out his shop and supply a few chance customers. But his purchases of flour may run into many thousands of pounds in the same time. He may be in a hopelessly involved condition, and run a few small accounts that he pays regularly on three months journeys entirely for the purpose of giving them as references.

References Not Always Satisfactory

References, although desirable, are not always a satisfactory means of obtaining information.

It is obvious that the customer will give only the names of those persons who he knows will give good reports of him.

Cases have been known where unscrupulous persons have deliberately nursed the accounts of those whom they gave as references, in order to obtain good reports. Hence, it has followed that, although the references were excellent, the account opened on the strength of them was most unsatisfactory, thus showing that the references were merely picked for the occasion.

In many cases, excellent references have been given, but the account has remained unpaid at the end of the time. On further inquiry it has been found that the references were not given by substantial people, but from motives of favour, friendship, or self-interest. Such references, of course, will not disclose the existence of a mortgage on the property, or of a bill of sale on the furniture.

Bank References

In the case of persons just starting business, trade references cannot, of course, be given. Bank references are usually furnished. These are not always to be depended on. A bank manager cannot know as much about a person as a firm which has been trading with him for some time. Even if the person's cheques had been returned marked "Refer to Drawer," such information would not be disclosed.

A banker's reference is frequently after the following style—

Dear Sirs,

Messrs. Nemo & Co. have had an account with us for the last two years. They are very respectable people, and are considered trustworthy.

Yours faithfully,

Cases have been met with, however, where a bank account has been deliberately "nursed," i.e. a substantial balance always kept there, and always for the same purpose of obtaining a good reference.

Guarantee

New accounts are sometimes guaranteed, as in the case of a friend assisting a friend, or a father helping his son. A form bearing a 6d. stamp is filled up, signed, and duly witnessed, to the following effect—

In consideration of your supplying Mr. of with goods for his business, I hereby guarantee the payment of his Account with you, to the extent of, but not exceeding, £200 (Two hundred pounds).

Long-Firm References

The most perilous kind of reference is that which comes from the "Long-Firm" partner. It is an amazing fact that many of the most astute and experienced credit granters are constantly being deceived by these dishonest persons.

The method is simple. Mr. Apstead Arum opens business in Newcastle, Mr. Balworth Bee in Birmingham, and Mr. Coventry Criss in Manchester. All three start ordering goods from different firms, each giving the names of the other two as references.

The plan may include a few months' steady trade with quick payments, and then a huge orgy of ordering heavy lots, quick disposal of goods to a pre-arranged receiver and a hasty flight.

Wonder is sometimes expressed at the success of these commercial buccaneers, and those who are caught by them are blamed for their folly.

But it should be remembered that Long-Firms have just a few decisive acts to perform and it is part of their life study to perform them well. Usually stationery, typing, printing, and all that reaches the victim is just precisely drawn to give the impression of substance and integrity.

The only safe rule is to refer an order from an unknown firm giving two other unknown firms as references to a Trade Protection Society, which should be furnished with the names of all *three* firms in confidence.

In this connection it should be noted that the chief trade protection societies and agencies are affiliated or recognize and assist each other in various ways. Some are not profit making, but mutual bodies. A list can be obtained from the National Association of Trade Protection Societies, Berners Street, London.

Trade Protection Associations keep a large staff of inquiry officials, and have agents in almost every town and village. They keep registers of bankruptcies of persons and firms, and of liquidations of companies, also of bills of sale, debentures, County Court judgments, etc. They thus have the history of unscrupulous individuals and firms in the trade carefully recorded.

A member of one of these organizations can, therefore, obtain an independent and reliable report on any fresh firm which requests credit. It puts through an inquiry, and in a day or two receives what is called a "status report." This can be compared with the report from

the references submitted by the prospective customer.

Status Reports from Trade Protection Associations

The fullest information is often required; the full Christian names, and in the case of a partnership, the full names of the partners are necessary; in the case of a married woman, whether she or her husband, or both jointly, are responsible for her debts.

The vital knowledge necessary is whether the customer can pay, and whether he is willing to pay, and also what means exist for compelling payment if he makes default. A private individual may have given a bill of sale; a limited company may have mortgage debentures. Information concerning these matters cannot be obtained from references or from the traveller. Recourse must, therefore, be had to a Trade Protection Association.

Reports can also be obtained in the same way by becoming a subscriber to one of the well-established mercantile societies. If these reports are carefully compared, there should be less difficulty in gauging the risk of giving credit. The following is a specimen report—

Regarding your inquiry *re* Messrs. Nemo & Co., the firm is very well known in the trade. Relations seem to be of the best possible kind, and accounts are regularly and promptly paid. In the opinion of those best able to judge, this firm is considered a fair trading risk for the amount you mention.

The following is another specimen of a status report from such an association as previously mentioned—

Regarding the firm of Nemo & Co., which is very well known to the wholesalers, we must advise extreme caution. Business relations are very strained with some of the best houses. Payments are said to be very irregular; and, in many cases, money has been obtained only after severe pressure. Some of the largest houses, we find, have definitely turned down their orders, owing to the trouble they give as regards payment. These people seem now to be feeling their way with some of the smaller houses. Credit should not be given to the extent mentioned, not more than half that amount is advised. It is also recommended that the account be carefully watched, and not allowed to exceed that limit, as the financial resources of the firm are not believed to be very large.

Travellers' Reports

The many changes in selling methods that have taken place during the last few years have tended, on the whole, to make firms pay rather less attention to the opinions of their travellers than was once the case.

In many houses the traveller is regarded as rather irresponsible in credit granting, and is himself subconsciously felt to be "rather on the side of the enemy" in the matter.

It is a part of the recently developed theory that salesmanship is an art acquired by training,

eller's opinion on this subject could always be obtained about every new account, even where his judgment is not sufficiently valued to make references unnecessary.

The following is a copy of a traveller's report form for a new account.

NEW ACCOUNT FORM	
	Name of Traveller
	Date of Visit
Name of Firm	
Address of Firm	
Business or Trade	
Description of Premises	
Class of Trade done	
References (1)	
(2)	
Name of Buyer	
Terms Arranged	
How Goods are to be sent	
Local Reputation	

and one cannot train a man to be cautious at the same time.

In a great number of firms, especially in non-advertising houses, the traveller's opinion is more largely accepted.

Whichever way the case is viewed the trav-

Customer's Credit Limit

The amount of credit it is finally decided to allow a new firm is usually noted at the top of the customer's Ledger Account, thus: *Good for £150, or Credit Limit £200.* An example of this is shown in Chapter XI.

CHAPTER VII

EXECUTION OF CUSTOMERS' ORDERS

IN the well managed business some person or department is usually responsible for granting credit and every order received is "sanctioned" before the goods are dispatched.

Orders are chiefly of two kinds (1) Travellers' orders, and (2) Post orders.

In dealing with the first, the methods of firms are largely influenced by the degree of authority given to the traveller.

Some years ago there were a great many salesmen on the road, probably a majority, whose orders were never questioned, but would at once be passed on for execution.

This custom has greatly changed of late, especially in those places where sales organization is linked up with advertising, and the function of the traveller is not so much to originate business as to gain the harvest of advertising outlay.

But there is still a large number of travellers who enjoy the entire confidence of their firms and who are empowered to give credit under any circumstances that appear reasonable to themselves.

The orders of salesmen who are not armed with this authority are usually "passed" by some person qualified to deal with them. In such cases the report of the salesman may have much to do with this endorsement, while in the case of a very trusted representative such an endorsement may be entirely formal.

Orders by post naturally come in for more careful scrutiny. This subject has been dealt with in the previous chapter. Orders from those who are already buyers are usually submitted to the illuminating side-light of the Ledger.

Many firms when opening an account with a new buyer mark the Ledger with the limit of credit that he is to be allowed.

This in itself is sufficient to afford information for later transactions. For example, Messrs. Smith & Co. send a post order for £20 worth of goods. A glance at the Ledger Account shows this firm is held to be good for £200 open credit, and that only £45 is owing. On the face of it such a case would appear to be one in which the goods should be dispatched without question.

But the official who sanctions credit should always look a little deeper than actual figures.

For example, Messrs. Smith & Co., whose reputation was excellent when they opened the account, may have come to evil times. The £45 owing may represent goods supplied many months before, and no payment whatever has been made. The old limit has remained unchanged at the top of the Ledger Account by oversight.

In such a case the sanction official should be capable of taking a discriminating view of the position. The fact that by an oversight the original £200 has remained unaltered should not deter him from making further investigation.

It is often overlooked by the outsider, who sometimes wonders how firms can ascertain whom it is safe to credit, that a Ledger Account is a most telling and explanatory statement to the mind of the man who is trained to read it.

There are book-keepers and others in business who are so clever and so logical in reading the lessons of a Ledger page from the records of past transactions, that almost at a glance they can give an unfaltering opinion, which in nine cases out of ten is a sound and unassailable judgment, to be proved up to the hilt by after events.

Usually this opinion is the result of cold logic, however subconsciously it may have been applied.

A word should be written here in passing upon the custom of marking the Ledger page with the amount limit of credit to be allowed to the customer.

In many offices such sanctions of credit do not come up for revision as often as they should. In the world of commerce a year or two, or even a few months can put such an estimate entirely out of date. The firm, originally judged to be good for £20, may prove itself amply good for ten times the sum, and again circumstances may prove an original estimate to be completely improper.

It is a good plan to invite the traveller either after every journey or at stated intervals to mark on his cash sheet his "current" opinions as to the extent of credit to be allowed; and where this varies materially from the sum

stated in the Ledger, the subject should receive new consideration and possibly a new limit should be fixed.

The responsible official or credit manager should initial the orders for execution. In some firms, principally of American origin, the letters "O.K." are used to denote that an order is all right for execution.

It may be necessary to hold over some orders till certain payments have been made. No order should, therefore, be executed which does not contain the responsible official's signature or initials; and the warehouse staff should be given instructions to this effect.

Making Out Order Forms for the Storekeeper

The original orders are not usually sent out to the storekeepers, but are copied on to official forms. Sometimes an order is split up, and parts copied on to different forms, frequently of different colours, especially if affecting different departments, or, in some cases, different stock rooms.

The customer's order will, of course, specify the whole of the goods on one order form. Thus, in a cycle warehouse, an order from a dealer might be not only for cycles, but also for tyres, rims, brakes, pedals, and also for some machines to be overhauled, cleaned, oiled, and adjusted.

This would require three official order forms. A Cycle Order would be made out for the new machines; a Parts and Accessories Order would be made out for the rims, tyres, brakes, and pedals; a Repairs Order would be made out for the overhauling, cleaning, oiling, and adjusting of the machines sent in.

These orders would be initialed by the official responsible, and then passed to the departments concerned.

The Order Books usually contain duplicate leaves; so that when an order is made out and torn off, a carbon copy still remains in the books for reference.

In the case of a firm doing business in photo-printing and drawing office supplies, an order might be received from an architect and surveyor for blue prints of a tracing, for further tracings of a plan, and also for tracing-papers and linens and mathematical instruments.

The order would be subdivided to suit the convenience of the firm.

One order would be made for the blue prints, and sent to the electric-light printing department; another order would be made out for

the tracings, and sent to the drawing office; a third order would be made out for the tracing-papers and linens and mathematical instruments and sent to the stock-rooms.

Packing Slips or Notes

In some firms the orders are copied on to packing slips. These are then sent to the departments or stock-rooms concerned.

If all the goods are not in stock, the stock-keeper will amend the quantities on the packing slip to agree with the quantities actually sent.

When the orders have been executed, the packing slips are returned to the office for the invoices to be made and sent to the customer. Fresh packing slips are made out for the uncompleted balance of the order, and sent to the stock-rooms for the staff to execute as soon as the goods come to hand.

In other firms, where stock-room clerks are kept, the packing slips are made out in the stock-rooms as the goods are being got ready for dispatch.

The orders themselves are usually placed on a spiked file until the packing slip is returned. They thus act as a safeguard against any order being overlooked. After completion, the orders are filed in alphabetical order, in case of future reference to them being necessary.

The following is a specimen of a Packing Slip—

PACKING SLIP	
LOTTAL, SONJE, AND TONLEY	
CLERKENWELL, LONDON, E.C.	
No. and date of customer's order	.. .. .
Customer's Name	.. .. .
Address	.. .. .

Instructions re dispatch (if any)	.. .. .
LIST OF GOODS	
Date goods dispatched	.. .. .
How goods were packed	.. .. .
Number and nature of packages	.. .. .
How goods were dispatched	.. .. .
Weight of packages	.. .. .
Signature of packer	.. .. .
Signature of checker	.. .. .
Countersigned	.. .. .
Foreman.	
Packing Department.	

Goods should be carefully packed. In most business houses the warehouse is placed under the care of a foreman or manager who is capable of estimating the amount of strain to which an outside package is likely to be submitted in transit, and the probable effect that rough handling or being carried on its sides or upside down, will have upon the goods it holds.

Needless to say that goods which must be transferred on land or transhipped on sea will come in for more careful attention under the care of such a man, than those to be sent in a single motor vehicle from door to door.

Warehouse packing is not a department of the office, but as the claims for damage in transit are frequently a subject with which the office must deal, especially when those claims become questions of other claims on carriers, it is often necessary that the office shall be able to vouch for the adequate nature of the warehouse system.

This may constitute a kind of check upon the work of the actual packers. If, for example, a firm has four packers, A, B, C, and D, and during the space of three months it has fifty claims on account of goods arriving in a damaged condition, and on investigation it transpires that forty-seven of these parcels were packed by warehouse man B, the knowledge can be useful.

The consequence may be that instead of a more vigorous assault being made against the claims departments of two or three public carriers, an intensive investigation of the packing policy and method of warehouse man B shall be carried out.

And here it is worth noting that warehouse packers are sometimes at a loss in changing the class of work they undertake. Some years ago a firm employed a packer of many years' experience and who possessed a fine record for careful work. It was only after many weeks it was realized that his goods almost invariably became damaged in transit.

In his case, from packing very light and very tough articles, he had been asked to deal with goods that were heavy and brittle. It was in the treatment of straw that he went wrong. In his previous work straw only needed to be lightly thrown in, while in the later task it was necessary it should be jammed securely into every crevice.

Nothing is more likely to irritate a customer than to receive goods in a damaged condition; and, if it happens on several occasions, it means

that the customer's patronage will be transferred to other houses. Special care must be taken that goods are not damaged in transit.

The packing rooms should be well lighted either with natural or artificial lighting, with the light well diffused and reflected.

Packing Materials

In packing goods, it may be necessary to use tissue paper, brown paper, straw, twine; where goods are sent by post, cardboard; and, where goods are fragile, corrugated straw-board.

Further, it may be necessary to use boxes, cases, and hampers, for packing purposes. If these packages are chargeable, they must be added to the packing slip, so that the invoice clerk may charge them on the invoice.

In some firms, very smart and elaborate labels are used for packages, because of their value as an advertisement.

Packing materials are usually bought in bulk from the large wholesalers, as there is little difficulty in keeping such stocks.

Firms, however, are much influenced by local conditions. A manufacturer who uses a large number of outside cases, and who is fortunately so placed as to be the only factory owner in a good sized town, is able to gain an advantage here over his opponent in the big city.

The local grocers, tobacconists, and others are constantly receiving outside packages for which they have no use. In a city with many factories the constant demand for these cases keeps the prices high, but in a smaller town the local manufacturer is almost a benefactor in taking them away at any small sum.

The person responsible for checking the goods before they are packed has to initial the packing slip; so, also, has the person who does the actual packing. It is thus possible to fix responsibility for errors in sending the wrong goods or the wrong quantities, or in omitting to send certain goods on the order.

Register of Customers' Orders

In some businesses, where it is usual for the customer's order to be passed on to the staff for execution, a Register of Orders is kept, to prevent an order being overlooked, and also to show from time to time what orders there are on hand.

The following is a specimen ruling of such a book.

REGISTER OF CUSTOMERS' ORDERS

Date Received	Name and Address	Order No.	Brief Particulars of Order	Date Executed	No. of Invoice

Should a customer write about an order, it is then quite easy to trace it and see what has been done with respect to it. In some cases, the register is in the form of a loose-leaf book, and in alphabetical order where this is more convenient. Cash orders are not entered except for some special reason.

Rough Sales Books

In some businesses, where packing slips are not used, Rough Sales Books are employed. These are generally carbon-copy books.

When the goods are ready for packing, they are entered in the Rough Sales or Day Book, the tear-off copy is initialed by the packer, and also by the checker, and is then enclosed in the parcel.

The book containing the carbon copy of this and similar other orders is sent to the office once or twice a day, so that the invoices may be prepared and forwarded to the customer. The records contain only details of the nature and quantity of the goods, not prices, this latter work being left for the office.

Where orders are very numerous, two or three such books are in use.

Where it is not the custom to enclose the tear-off copy in the parcel, the goods pass from the stock-rooms, with the Rough Day Book slip attached, into the packing and forwarding department. Both packer and checker initial the docket, which is then filed for reference.

Delivery Notes or Tickets

Where goods are delivered by hand or by the firm's own carman, a delivery note or ticket is usually sent. This details the goods in the case or package, and has to be signed by the person receiving the goods. This signature then acts as the firm's receipt for having supplied the goods. The following are specimens—

DELIVERY NOTE

LOTTAL, SONJE, AND TONLEY

Suppliers of Photo Prints

and

Drawing Office Requisites

Date 19...

Please receive from the above—

YOUR ORDER NO.. . . .

20 blue prints, 40 in. × 27 in.

Received by

DELIVERY TICKET

Date 19 ..

Please receive from the

QUESLETT FLOUR MILLS, LTD.

YOUR ORDER NO.

10 sacks flour xxx
6 bags bran
6 sacks toppings
2 sacks pollard
1 sack wheatmeal

Received by

Dispatch of Goods

When goods are being dispatched to a distance it is necessary for them to be sent by the route mentioned in the customer's order. Although they are usually sent carriage forward, the customer may in certain cases ask for goods to be sent carriage paid. In such cases the

carriage is paid, and is then charged on the invoice or on a subsequent Debit Note.

A Consignment Note, as it is called, is made out for goods sent by rail. These are generally in counterfoil book form, and are supplied by the railways concerned.

When goods are sent by carrier, such as Carter Paterson, Pickford, and the London Parcels Delivery Company, receipts are obtained for the amount of carriage paid, different coloured forms being used according as the goods are sent at the carrier's risk or at the owner's risk. These receipts are filed for reference.

It happens at times that a parcel is lost in transit, and the carrier's or railway company's signature is required to prove delivery to him or them. The Consignment Note counterfoils are also necessary to check the Railway Company's account for carriage of a trader's goods.

Stoppage in Transit

It occurs occasionally that goods which are in transit between the seller and the buyer have to be stopped in order that the unpaid seller of the goods can retake possession of them. This can be done only so long as the goods are in transit, i.e. have not been actually delivered to the purchaser. This right of stoppage *in transitu* exists only where the buyer has become insolvent. Sect. 44 of the Sale of Goods Act, 1893, says with regard to the right of stoppage—

Subject to the provisions of this Act, when the buyer of goods becomes insolvent, the unpaid seller who has parted with the possession of the goods has the right of stopping them *in transitu*, that is to say, he may resume possession of the goods as long as they are in course of transit, and may retain them until payment or tender of the price.

The duration of the transit is explained in Sect. 45, as follows—

Goods are deemed to be in course of transit from the time when they are delivered to a carrier by land or water, or other bailee or custodian for the purpose of transmission to the buyer, until the buyer, or his agent in that behalf, takes delivery of them from such carrier or other bailee or custodian.

How stoppage *in transitu* is effected is set forth in Sect. 46, as follows—

(1) The unpaid seller may exercise his right of stoppage *in transitu* either by taking actual possession of the goods, or by giving notice of his claim to the carrier or other bailee or custodian in whose possession the goods are. Such notice may be given either to the person in actual possession of the goods or to his principal. In the latter case the notice, to be effectual, must be given at such time and under such circumstances that the principal, by the exercise of reasonable

diligence, may communicate it to his servant or agent in time to prevent a delivery to the buyer.

(2) When notice of stoppage *in transitu* is given by the seller to the carrier, or other bailee or custodian in possession of the goods, he must re-deliver the goods to, or according to the directions of, the seller. The expenses of such re-delivery must be borne by the seller.

Carriers and Passenger Train Transport

Transport has been called the "life blood of commerce." And though many traders complain of high transport costs, yet few take the trouble to study railway classification and grouping, by means of which they could very often save a considerable portion of the charges.

Local carriers can often handle traffic within a radius of twenty miles much more quickly and cheaply than railway companies.

In law, there are two classes of carriers, common and private. In practice, however, these descriptions are not met with. Carriers describe themselves as local carriers, special carriers, or railway carriers. Local carriers serve outlying villages and railless districts, and link up near-by market towns.

Special carriers are those who serve only particular trades, as meat carriers, fish carriers, and fruit carriers.

Railway carriers receive and forward by rail small parcels. Such carriers are Carter Paterson, Pickford, Sutton, and Globe Parcels Express.

They form the small parcels into large bulk consignments, which they are then able to forward at special low rates, far cheaper than the railway company itself would charge for each separate package. This is a great advantage to the mercantile community, and, at the same time, relieves the railway company of the trouble and responsibility of handling thousands of small parcels daily.

Local monthly time tables often include a list of local carriers; by this means, a through service can often be arranged.

Where a quick service is required, certain goods, especially perishables, such as fish, fruit, and provisions, are sent by passenger train to distant places not served by or beyond the radius of the carrier.

The railway company's *Parcels Rates and Arrangements Book* should be obtained and the classification studied. If there are two or more parcels for the same person, they go cheaper by being tied together, as they are then chargeable as one package.

The contents of the parcel should be declared when it is handed to the railway company for conveyance. Many articles are sent undeclared, and are, therefore, charged at the ordinary parcels rate; but, had the contents been declared, the charges would, in many cases, have been halved.

Business firms whose parcels consist of perishables may often reduce the charges considerably, by having such goods charged at the divisional rates instead of at owner's risk or at general parcels rates.

A study of the rules and regulations, with respect to his own class of traffic, is therefore well worth while to the trader.

Parcels Post

Parcels of small weight, say up to 12 lb., can, in numerous instances, be more expeditiously delivered through the post than by passenger train, as the post office undertakes to forward parcels almost everywhere.

A *Certificate of Posting* should be filled up, which should be initialed by the post office official, and also impressed with the post office stamp.

This should be kept for reference; for it may be wanted as proof of dispatch when claiming compensation for a lost parcel. Compensation up to £2 is paid for any parcel which is proved to have been lost by negligence of postal officials.

Goods Train Transport

Although goods may be sent by carrier, passenger train, and parcel post, enormous quantities are also carried by goods train. It is usual, but not absolutely necessary, to fill up the official Consignment Note. These are issued by the companies, in book form, and are provided with counterfoils to be kept for reference purposes.

The particulars required by the Consignment Note to be plainly set forth are as follows—

1. The full name and address of the consignee, i.e. the person to whom the goods are to be sent.
2. The number of packages, together with an accurate description of their contents.
3. The weights of the packages, if possible, in order to facilitate quicker handling.
4. A statement as to who is responsible for the carriage, whether sender or consignee.
5. A statement as to whether the goods are to be carried at owner's risk, or at the company's risk.

The charges for traffic by goods train are set

out in the *General Railway Classification of Goods and Merchandise* book, which can be obtained for one shilling.

In it the trader will find information concerning the classification of goods. He will see that different kinds of goods are chargeable at different rates; that, by bulking goods, and by adopting certain forms of packing, the charges for carriage may be considerably reduced.

Omitting to declare goods in accordance with railway classification may cause the goods to be charged at a very much higher rate than would otherwise be the case.

For paper alone, there is a variety of rates, according to classification. Where traders get overcharged, it is often their own fault, as the railway clerks can only go by the trader's declaration; they cannot open the case to see its contents.

While, however, the trader, in his own interests, should give a full and accurate description of the goods, he must not mis-declare them in order to get the benefit of a cheaper rate. He is liable to a fine of £10 for so doing, as well as having to pay the proper rate of carriage.

Where a railway company has reason to suspect that a case contains *dangerous* goods, they have a legal right to open the case which they believe to have been mis-declared.

The weights should be carefully checked. An error in weight of only 1 lb. may make considerable difference to the charge for carriage. Thus, suppose a package weighed just 14 lb., but through haste or carelessness in weighing, it got entered as 14½ lb. The charge for packages up to but not exceeding 14 lb. would be much lower than for 15 lb., which would come under the next scale of exceeding 14 lb. but not exceeding 28 lb., and would, therefore, be charged as 28 lb.

Consignment Notes

Specimens of Consignment notes for goods carried at Company's Risk (C.R.) and at Owner's Risk (O.R.), are given on the next page.

Carriage Costs Reduced by Methods of Packing

In every case the goods should be well packed, as one of the railway companies' general conditions of carriage expressly negatives liability for damage or loss of goods caused by improper or insufficient packing. From the customer's point of view, too, it is extremely important that all goods should arrive safe and sound.

CONSIGNMENT NOTE for Goods to be carried at Owner's Risk.

The _____ Railway Company hereby give notice that they have alternative rates for the carriage of the undermentioned goods, at either of which rates the goods may be consigned at the Sender's option, (1) the ordinary rate, and (2) a lower rate charged upon the terms of the following Special Contract.

NUMBER OF THIS NOTE.

To the _____ RAILWAY COMPANY.. . .

Station _____

. 19.....

Receive the undermentioned goods for carriage at the lower rate subject to the condition that the Company shall not be liable for loss, damage, misconveyance, misdelivery, delay, or detention of or to such goods or a Trader's truck or sheet (if any) containing or covering them except upon proof that such loss, damage, misconveyance, misdelivery, delay, or detention arose from the wilful misconduct of the Company's servants. But nothing in the aforesaid Condition shall exempt the Company from any liability they might otherwise incur in the following cases of non-delivery, pilferage, or misdelivery, that is to say—

- (1) Non-delivery of any package or consignment fully and properly addressed, unless such non-delivery is due to accidents to trains, or vessels, or to fire.
- (2) Pilferage from packages of goods protected otherwise than by paper or other packing readily removable by hand, provided the pilferage is pointed out to a servant of the Company on or before delivery.
- (3) Misdelivery where goods fully and properly addressed are not tendered to the Consignee within twenty-eight days after despatch.

Provided that the Company shall not be liable in the said cases of non-delivery, pilferage, or misdelivery on proof that the same has not been caused by negligence or misconduct on the part of the Company or their servants

This Agreement shall be deemed to be separately made with all Companies or persons who shall be Carriers for any portion of the transit (herein respectively referred to as the Company) and to include the Conditions endorsed hereon.

Signature of Sender or his Representative Address

Senders must fully and accurately describe the contents of packages and must also clearly state whether carriage is payable by Sender or Consignee.

To what Station to be sent.	CONSIGNEE.		No. of Articles or Packages.	Description of Goods and Marks.	WEIGHT.				Charges paid out.	Who pays the Carriage.
	Name.	Address.			Tons.	cwts.	qrs.	lbs.		

Goods which may be required "To wait order" at any particular Station must be so consigned on this Note.
Name of Company's Drayman bringing traffic in. [OVER]

GENERAL CONDITIONS

1.—The Company shall not, whether the carriage be by land or sea, be liable for loss or injury (from whatever cause arising) of or to any articles or property described in the *Carriers' Act*, 1830, contained in any parcel or package when the value of such articles or property exceeds £10, unless the nature and value thereof be declared and an increased charge over and above the charge for carriage be paid as compensation for the risk incurred.

2.—In respect of animals or goods intended to be carried by Shipping Companies or other Carriers by Sea the Company are authorized as agents for the Sender to contract for such carriage upon the terms of any Bill of Lading or other conditions required by the Carriers by Sea.

3.—The Company shall not be liable for loss from or for damage or delay to a consignment or any part thereof unless a claim is made in writing within three days after the termination of the carriage of the consignment or any part thereof, or in the case of traffic to places outside the United Kingdom the termination of the carriage by a Railway Company of the United Kingdom, nor for non-delivery of a consignment, unless a claim be made in writing within fourteen days after its receipt by the first contracting Company.

4.—When the Company perform the cartage, the place of collection or delivery shall be the usual place of loading or unloading the goods into or from the road vehicles.

5.—The Consignor or Consignee shall provide at his own risk and expense any power, plant and labour (in addition to the Company's carman) required for loading or unloading road vehicles.

6.—The transit shall (unless otherwise determined) be deemed to be at an end, (a) in the case of goods to be carted by the Company when they are tendered at the place of delivery as defined in Condition 4, or (b) in the case of goods not to be carted by the Company, or to be retained by the Company awaiting order at the expiration of 24 hours after notice of arrival is delivered to the consignee, or at his address, or should be so delivered in due course of post, or where the address of the consignee is not known at the expiration of 24 hours after the arrival of the goods at the place to which they are consigned, or (c) in the case of goods consigned to a destination beyond the limits of the Company's delivery, when they have been transferred to another carrier in the usual course for conveyance or delivery, in which last-mentioned case the Company shall cease to be liable for any subsequent loss, damage, misconveyance, misdelivery, delay, or detention arising from any cause whatsoever.

7.—After the termination of the transit (as defined in Condition 6 (a) and (b)), the Company will hold the goods as warehousemen subject to the usual charges.

8.—The Company will charge in accordance with their scale for the time being for the detention of their trucks, road vehicles, or sheets, or for the occupation of their Sidings, by the trucks of private owners, (a) before or after transit, and (b) during transit in consequence of the Consignee not being ready to accept delivery.

9.—All goods delivered to the Company will be received and held by them subject to a lien for money due to them for the carriage of and other charges upon or expenses in connection with such goods (including charges for warehousing or keeping such goods for detention of trucks, road vehicles, or sheets, or for siding rent during the exercise of such lien), and all goods delivered to the Company under this consignment note or otherwise will be received and held by them subject to a general lien for any moneys due to them from the owners of such goods upon any account, and in case any such lien is not satisfied within a reasonable time from the date upon which the Company first gave notice to the owners of the goods of the exercise of the same, the goods may be sold by the Company by auction or otherwise and the proceeds of sale applied to the satisfaction of every such lien and expenses and charges.

10.—Perishable articles (a) refused by the Consignee, or (b) not taken away from the place to which they are consigned within a reasonable time after arrival, or (c) insufficiently addressed, or (d) not delivered in consequence of strike or riot, may be sold without any notice to Sender or Consignee, and payment or tender of the net proceeds of any such sale after deduction of freight charges and expenses shall be equivalent to delivery.

11.—The Company shall not be liable for (a) loss of market, (b) indirect or consequential damages, (c) loss or delay due to inadequate or incorrect address, or imperfect labelling, (d) loss or damage caused by insufficient or improper packing, (e) loss, damage, or delay caused by or arising out of any strike or riot, (f) loss, damage, or delay caused by Consignee not accepting delivery.

12.—The sender will be liable for all charges for carriage or otherwise including the detention of trucks, road vehicles, or sheets, before, during, or after transit without prejudice to the Company's rights against the Consignee or other person.

13.—The charges for traffic that loses weight through drainage, evaporation, or any cause beyond the Company's control, shall be calculated upon the weight of the goods when received by the Company.

14.—The Conditions and Regulations set out in the Company's Rate Books applicable to the goods carried, shall be deemed to be incorporated herein.

15.—The Company's servants have no authority to vary this Contract.

Station, _____ 19..

ARE REQUESTED TO FORWARD THE UNDERMENTIONED GOODS UPON THE CONDITIONS AT THE BACK HEREOF

A Printed Form of Receipt is Specially Provided for Amounts of £2 and Upwards, and no Other will be Recognized

Address

Sender:

[illegible]

THIS PART TO BE RETAINED BY THE SENDER

[illegible]

Drayman _____
Checker _____

Signature of
Sender or
his Agent

Time and Date }
Received at }
Station }

Again, paints and colours packed in iron drums are charged at one rate ; in cans, hampers, and boxes, another rate ; in glass bottles, another rate ; in jars, another rate. It is, therefore, to the trader's advantage to study the requirements of the railway company, in order to reduce the cost of carriage as much as possible.

The matter of the address is of the utmost importance. If insufficiently addressed, the goods may easily be forwarded to a wrong destination. The loss will fall on the sender, as the railway company will in such case repudiate liability for either loss or delay.

Where there are two towns of the same name, the county should be added, as Stratford, London, and Stratford, Warwickshire. In the case also of small villages, the county should be given in preference to the nearest large town.

Railway companies also recommend that an addressed label be placed inside each package, in order to ensure that the goods shall be delivered in the event of the outer label becoming defaced or detached.

Except for explosives and goods of unusual bulk or length, there are two rates for the carriage of merchandise, which are called Owner's Risk and Company's Risk respectively.

For goods consigned at company's risk, the company are liable as a common carrier for whatever may happen during the transit of the goods.

Before sending goods at owner's risk, the sender must give an undertaking that he will relieve the company from liability for loss, damage, misconveyance, misdelivery, delay, or detention of or to such goods or a trader's truck or sheet (if any) covering them, except on proof that such things arose from the wilful misconduct of the company's servants. The conditions are fully set out on the special consignment note.

The owner's risk rates are about 15 to 20 per cent lower than the company's risk rates. To a trader doing a big business with the railway company they are a great inducement.

Many firms are making increasing use of the "owner's risk" method, as experience tends to show that in any cases where there is not "wilful misconduct" on the part of the company's servants the probability of loss is very slight.

As a railway official remarked some time ago, he "could not conceive of any of the 'relieved' liabilities occurring without the company being open to the suspicion at all events that someone had wilfully omitted to do his duty."

It is most important that signatures be obtained for all goods consigned by rail, as otherwise the railway company will refuse to entertain any claims for loss or damage.

Monthly Account for Carriage

Where a trader consigns large quantities of goods by rail, the company usually grant a credit monthly account. Unless the goods are carefully declared, the company will naturally charge the highest possible rate.

The particulars should be carefully checked with the counterfoils of the consignment notes, and the weights specially verified.

The account will sometimes include "paid on" charges, items such as cartage, sea-freight, dock dues, which the company have had to pay, and therefore recharge to the trader. Accounts should be promptly paid, as otherwise credit facilities will be stopped; for the company cannot be compelled to grant a credit account. To withhold payment till overcharges or claims are settled might mean having to prepay carriage on each future consignment of goods.

Checking the Carriage Account is usually one of those tasks in an office that is not enjoyed, the work in checking up details being sometimes a little tedious.

Canal and Waterway Transport

Goods are also dispatched by canals and waterways. Where a firm's works are situated alongside the banks of a river which is navigable, it can receive its raw material direct by water. Since it costs much less to construct and maintain a waterway than it does a railway, the charges are very much less for canal transport than for transport by rail.

Competition is very keen in places between

railways and canals. This is to the advantage of the trader, as it keeps down the cost of carriage.

The disadvantage of water transport is that it is slow, and suitable only for works situated at the riverside.

It is used principally for low-grade traffic, such as coal and timber, in bulk consignments, but in certain districts in England, where local traders feel they are not being considered by the other public carriers, there are strong efforts made to send as much material as possible in this way.

Motor Transport

Motor transport is entering into keen competition with railways. Motor transport is possible, within a 100 miles radius, at far below railway cost; and is also subject to greater competition.

There are no elaborate rules to understand, no vexatious restrictions regarding packages. Carriage by rail involves several handlings, cartage to station, putting on rail, cartage from rail to destination; whereas by motor haulier, goods are carried direct to their destination.

For bulk traffic, motor transport is undoubtedly a commercial proposition. Outside a limit of 100 miles, however, the motor haulier finds it increasingly difficult to compete with the railway companies in many lines of trade.

Where there are charged returnable packages such as empty jars, bottles, tins, and boxes, the motor deliverer can afford to take a wider range and sometimes exceedingly lengthy journeys are taken in such trades and held to be profitable.

The tendency now is toward a lengthening of the distance at which motor delivery is economical. This is partly due to the great improvements in the roads and the more economic cost of running.

Air Transport

Aerial transport is not yet a serious competitor with other modes for goods traffic. There is already a mails and parcels service from England to the Continent.

It is thought, however, that it will be, in the future, not merely a means of carrying mails and parcels, but also commercial goods. In fact, some enthusiasts go so far as to predict that ultimately it will be the chief means of transport. The great advantage is, of course, speed.

CHAPTER VIII

RECORDING SALES

WHEN goods are sold to a customer and the amount is to be charged to his account, the particulars are entered in a book which is usually called a "Day Book," though sometimes it is known by other names, such as "Sales Day Book," "Sold Day Book," and "Sold Journal."

Keeping a separate subsidiary Sales Book enables all the credits for the month to be posted to the Sales Account in one total, instead of having to journalize each item separately to the credit of Sales Account.

The Day Book is added continuously until the end of the month, and the total posted as Sales for that period.

In a very large office from which business is done with great numbers of customers, many Day Books may be in use simultaneously. The object of this is to enable several clerks to be entering up at the same time.

These Day Books are all totalled in the same way and the totals posted as stated above.

When the Day Book is divided into two or more parts, the division is usually part of a carefully devised plan.

The simple methods outlined in Chapter II make it clear that all books kept on double-entry principles must balance as a whole.

What is not sometimes realized is that the same methods can be applied to groups or sections of ledger accounts.

The convenience of being able easily to divide the books into groups is greater still when such subdivision can be made to serve the purpose of localizing errors.

The usual ruling of the Sales Book or Day Book is one which contains columns for date of sale, particulars of transaction, ledger folio, details, and total. The total column is added, and the amount carried forward page by page to the end of the month. The separate transactions are posted day by day to the debit of the various personal accounts in the Sales Ledger, and the

monthly total direct to the credit of the Sales Account in the General or Impersonal Ledger, thus completing the double-entry without using the Journal for this purpose.

The Term "Day Book"

The term "Day Book" is by far the oldest title of the Sales Book. In early days, the credit sales were undoubtedly the most numerous, and indeed the principal, daily transactions of a trader.

Hence, by the psychological law of the association of ideas, the term "Day Book" became inseparably connected with the idea of sales, while the term "sales" immediately conjured up the idea of "Day Book." Hence the use of the term "Day Book" to denote the record of credit sales.

Since all the books are now daily records, there does not seem to be any reason for using the term solely for this one book. The term Day Book is now frequently applied to any daily record. Thus, we have Bought Day Book, Returns Day Book, and Goods Received Day Book.

Further, many retailers keep what they call a "Day Book"—quite unlike the one we are now discussing—which is a mere record of orders received; and when the goods are sent out, or the order executed, the entry is cancelled by being crossed through with a pen.

The name "Day Book" is not distinctive enough for credit sales, whereas the term "Sales Book" is a specific title, designating only the one book so used.

Some accountants, however, still contend for the use of the term "Day Book," on account of its being centuries old. But this is surely a very conservative view. It is tantamount to denying the science of book-keeping the right to advance. There is hardly a science which has not during the centuries vastly improved its nomenclature, endeavouring always to make its terms exact, that is, most clearly defining their scope, and also to make its terms specific, that is, denoting only the things to which they are applied.

Anyone who reads Jones's *English System of Book-keeping* cannot fail to be struck with the vast improvement made in book-keeping nomenclature.

SALES (OR DAY) BOOK

Date	Particulars	Led. fol.	Details			Total	
			£	s.	d.	£	s. d.

We no longer speak of "Bills of Parcels," but "Invoices"; nor of "Abatement Column," but of "Discount Column"; nor of "Trade Account," but "Trading Account"; nor of "Ledger Alphabet," but of "Ledger Index"; nor of "General Balance Account," but of "Balance Sheet."

The old terms seem to make a harsh, halting utterance, while the modern terms trip off the tongue with grace and ease. It is the result of the unending law of progress; the old order must give place to the new, when the new is decidedly better.

"Odd" and "Even" Day Books

In many firms the practice obtains of keeping "odd" and "even" Day Books. All credit sales taking place on odd dates, such as 1st, 3rd, 5th, 7th, and so on, are entered in the Odd Day Book; while all credit sales on even dates, such as 2nd, 4th, 6th, 8th, and so on, are entered in the Even Day Book.

The object of this is to prevent loss of time through the ledger-keeper having to wait until the invoice clerk has finished with the Day Book. The Day Book in use on an odd date will not be required by the invoice clerk on the next day, as that will be an even date. This gives the ledger-keeper the sole use of the Odd Day Book for one day in order to get the items posted to the Sales Ledger, and in this way enables the posting to be kept up to date.

In other firms, the terms "odd" and "even" are not employed, but a similar system is adopted. Alternate Day Books are kept, one for use on Mondays, Wednesdays, and Fridays, and the other for use on Tuesdays, Thursdays, and Saturdays.

Cash Sales

Cash Sales will be entered in the Cash Book only, and will, therefore, not appear in this book. There are firms, however, in which the Cash Sales for the month are entered into the Sales Book and added with the credit sales, in order to make one monthly total for posting to the Sales Account. This practice cannot be recommended, as it involves additional labour without yielding any compensating advantage.

On the other hand it does happen that a regular customer, one who has a Ledger Account, will sometimes pay cash for certain articles in order to gain the benefit of the cash discount.

In this case, although the sale is a cash sale it is better to treat it as a credit sale, that is,

to have it entered in the Sales Book and posted to the Ledger, the cash being entered in the Cash Book, and posted from there to the Ledger Account.

This is done so that the customer's account may be a complete record of his transactions and not a partial one; for he might make reference to one of these sales, or he might give a repeat order for some of the articles, and no trace of it would otherwise appear in his Ledger Account.

Invoices

After entering the details of each credit sale into the Sales Book, it is usual to make a copy of it on a special form called an Invoice, which is sent to the customer on the day the goods are dispatched. It should contain all necessary information, such as full description of goods, weights or quantities, prices and details of charges; it should also quote the customer's own order number.

Press-Copy and Carbon-Copy Invoice Books

In some businesses, however, invoices are made out from the customer's order, or from a packing slip, and then press-copied into a tissue-paper book, called a Press-Copy Invoice Book.

In other firms, invoices are made out in a Carbon-Copy Invoice Book, the top perforated copy being torn off and forwarded to the customer, while the carbon copy is kept in the book for reference.

These methods ensure an invoice being sent to each customer, and provide an authentic record of the goods and prices which appeared on such invoices.

Sales Journal

As the Press-Copy and Carbon-Copy Invoice Books are not suitable for Sales Books, another book is brought into use, which is called a Sales Journal.

It contains columns for date of sale, number of invoice (or press-copy book folio), name of customer, ledger folio, and amount of invoice, with additional columns for analysis if rendered necessary by the nature of the business.

No details of the transactions are recorded in this book, but reference is made to the carbon-copy invoice number, or the page of the press-copy book, where they can be readily found.

The following is a specimen.

SALES JOURNAL

Date	No. of Invoice ¹	Name	Ledger Folio	Amount of Invoice	Drapery	Out-fitting	Boots and Shoes
19..				<i>s d</i>	<i>s d</i>	<i>s d</i>	<i>s d</i>
Aug. 2	171	Blackton, G	71	52 -	11 -	8 17 -	31 16 1/2
8	172	White & Son	72	41 18 8	41 18 8		
14	173	Oliver & Co	73	38 5 -		38 5 -	
20	174	Greening, E	74				
26	175	Finchley Bros.	75	173 15 4	66 1 4	67 1 -	74 10
31	176	Brown & Rugger	76	105 19 -	7 1 -	13 2 -	85 16
				185 15 -	126 8 -	127 8 -	232 2

¹ Or Press-Copy Book folio.

Trade Discounts

Trade discounts are percentage allowances made from the catalogue or list price of goods by manufacturers to wholesale houses, or by wholesale firms to retailers in the same trade. The percentage varies according to the nature of the business, and even on different articles in the same business.

The advantage of the trade discount is that traders, instead of having to quote widely different prices to their various large and small customers, are able to fix standard list prices applicable to all purchasers, and then to regulate the price actually payable, by any individual purchaser, by rates varying according to the

articles bought and the extent of the business transacted.

By means of raising or lowering the rates of trade discounts, manufacturers are also able to deal with fluctuations in price caused by a rise or fall in the cost of raw materials. This obviates the necessity for constantly reprinting catalogues or repeatedly issuing fresh price-lists.

The usual trade discounts are 10 per cent or one-tenth, 20 per cent or one-fifth, 25 per cent or one-fourth, 33 1/3 per cent or one-third, and 50 per cent or one-half.

The trade discount is deducted in the Sales Book, and does not, therefore, appear in the Ledger Account at all, only the net amount of the sale being shown in the personal accounts.

Thus, supposing the Empire Cycle Company, Ltd., sold to W. J. Slump, a cycle dealer, some tyres, a specimen of the Invoice which would be received by him is given in the previous column.

The entries which would appear in the Cycle Company's Sales Book and Sales Ledger respectively, are given at the top of the next page.

Billing Machines

The operation of preparing the invoice and other documents is usually done on the typewriter, but the ordinary typewriter suffers from the fact that additions and subtractions cannot be made without taking the document out of the machine.

At the present time many typewriters contain an adding and subtracting attachment, or "totalizer," for collecting the totals of the money figures written on the typewriter in the usual way, i.e. by depressing the figure keys.

The ordinary typewriter does not add, while the ordinary (non-listing) adding machine does

INVOICE

Telegrams. WHEELS, LONDON. HOLBORN VIADUCT,
Telephone: HOLBORN 628. LONDON, E.C.1.
11th July, 19..

MR. W. J. SLUMP,
16 BROAD STREET,
LINCOLN.

Bought of
THE EMPIRE CYCLE CO., LTD.

Terms: 2 1/2% 1 month.

50	"Excelsior" Cycle Tyres, complete with Inner Tube and Valve . Less Trade Discount .25%	14/6	£	s	d.
			36	5	-
			9	1	3
			£27	3	9
Per N.E. Rly to-day					

SALES BOOK

(Page 59)

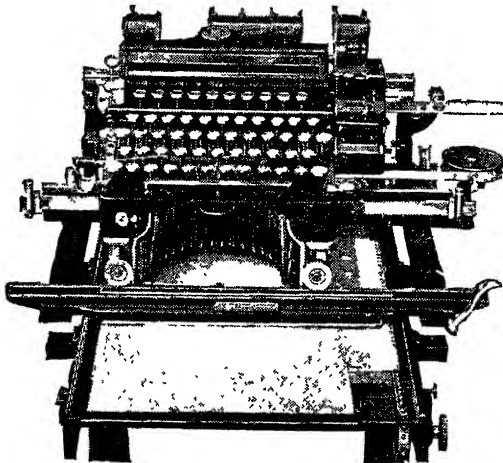
Date	Particulars	Ledger Folio	Details			Total		
			£	s.	d.	£	s.	d.
19.. July 11	Slump, W. J. 50 "Excelsior" Tyres, with Inner Tube and Valve, 14s. 6d. Less Trade Discount, 25%	72	36 9	5 1	— 3		27	3 9
						£27	3	9

SALES LEDGER

72 Dr.	W. J. SLUMP					Cr. 72				
19.. July 11	To Goods	59	£	s.	d.					
			27	3	9					

not type ; but a happy combination of the two enables billing and invoicing to be done rapidly and accurately by machinery. "Billing" may mean making—

1. A copy of the customer's order for the warehouse or the factory, or for both.
2. A copy for the sales department.
3. Customer's advice note.
4. Address label.
5. Loose leaf of Day Book.
6. Customer's invoice ; and perhaps
7. A consignment note.



ELLIOTT-FISHER BOOK-KEEPING MACHINE

While doing this the machine will collect the £ s. d. figures and add them, so that the totals can be inserted in the loose leaf of the Day Book and on the invoice. The necessary docu-

ments can, therefore, be made at one and the same time, thus ensuring uniform and accurate records.

Like a non-listing adding machine, however, the typewriter totals are not written on the paper, but are recorded, on the principle of the cyclometer, in an indicator on the totalizer. They can, therefore, be read from the indicator and typed on the paper whenever required.

For deductions, a subtracting lever is used ; this causes the wheels of the totalizer to revolve in the opposite direction until the new total is made. A listing adding-machine has not for its items a range of description like the adding typewriter, which can write any narration against the figures. This makes the latter eminently suitable for billing and invoicing purposes.

The Elliott-Fisher Book-keeping Machine, shown in the previous column, is also very suitable for billing purposes. Unlike the ordinary typewriter, where a sliding carriage moves to and fro while work is being done, the typewriter itself can be moved from top to bottom, or across the sheet of paper, which is fastened to a flat, stationary bed. This enables entries to be made in bound books, and also gives the machine exceptional manifolding powers.

Another disadvantage of the ordinary typewriter is that, where more than one copy is required, time is lost in inserting the carbon paper, getting it into alignment, and so on. These operations are avoided when a "billing machine" is used. This is a machine which will type the required number of copies at one operation.

The Underwood Continuous Fanfold Billing

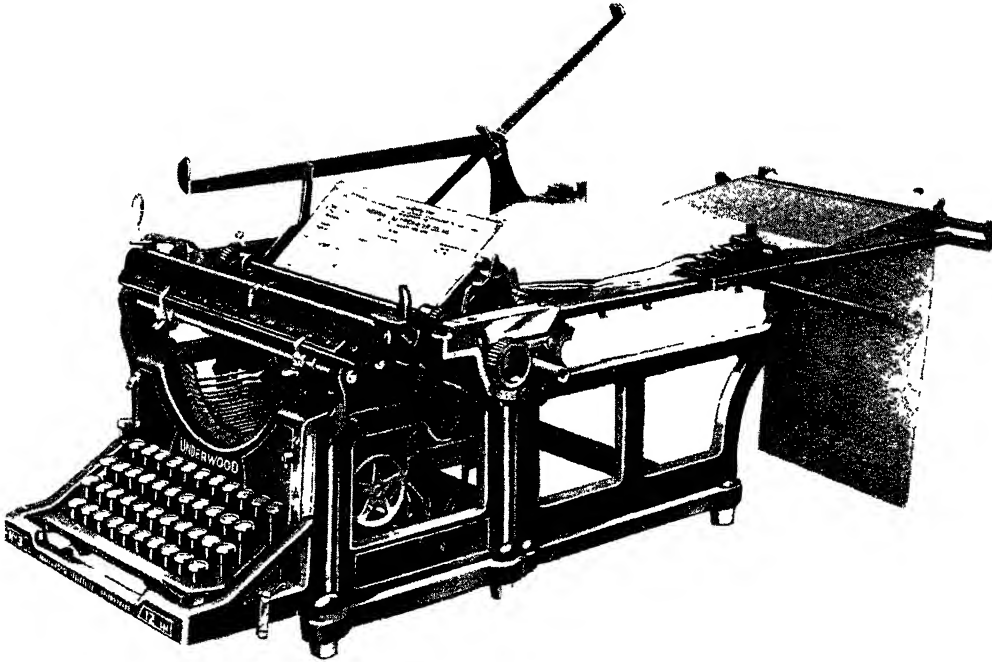
Machine (see illustration) prints in continuous length, while the carbon paper between the forms is instantaneously moved from one set to the next by the touch of a handle.

There is no joggling of loose separate forms into the typewriter, and no risk of faulty alignment, either perpendicular or horizontal.

By the old method, the carbons are first interleaved between the various copies; the set of forms is jogged into alignment, placed in the machine, adjusted to the first line of writing,

this machine practically doubles the typist's output.

Another suitable machine is the Elliott-Fisher Automatic Feed Machine, which may be either manually or electrically operated. In this machine continuous stationery is used, either in separate rolls as in the illustration (page 66), or the forms may be wound on to one large roll. The forms are placed in the rear of the machine and fed from the back to the front, over the flat writing surface. The carbon paper, which is in



UNDERWOOD CONTINUOUS "FANFOLD" BILLER

and typed. The form is then taken out of the machine and the carbons removed.

By the new method, after the first form has been written on the continuous stationery, the operator swings the form forward, pulls it to the stop gauge, and presses a lever, which removes the carbons from the written sets of forms and leaves them in the next set.

A knife in front of the platen enables the completed set of forms to be cut off, leaving the following set in writing position. The typist can continue writing immediately. There is no handling of dirty carbon paper, neither are specially trained operators necessary. Whenever carbon copies are required in quantities,

one continuous length, runs from left to right between the forms.

The forms may be of any colour, weight, or grade of paper, and may be numbered, punched for binding, or perforated. When the required information has been typed, the set of forms is pulled forward for cutting off, and the next set is in position for typing.

As described, this machine is a typing machine, but it may be equipped as an adding and subtracting machine, or as an adding, subtracting, and cross-computing machine by means of additional apparatus. With the adding and subtracting apparatus figures are added or subtracted in registers as they are written on

the forms. These registers vary in capacity according to requirements, and may be used to record the totals of entries in individual columns. Each register is separate from every other one, and is in itself a complete adding machine. They can be disengaged at will from the adding mechanism by means of a non-add key.

Columnar Sales Book

In numerous businesses the Sales Book is ruled with extra columns, so that the credit sales may be subjected to a detailed analysis. The separate entries are posted daily to the



ELLIOTT-FISHER AUTOMATIC FEED MACHINE

debit of the personal accounts affected in the Sales Ledger.

The total of the total column is not posted at all; it is used to check the cross cast of the analysis columns. The monthly totals of the analytical columns are posted direct from the Columnar Sales Book to the Impersonal Ledger, to the credit of the nominal accounts concerned.

The advantages of the Columnar Sales Book are—

1. The items are subjected to continuous analysis, thus dispensing with the clerical work entailed by dissecting and summarizing the Sales total at the end of the month.

2. Where the nature of the business requires such dissection, the Columnar Sales Book is the most direct and the most reliable method of obtaining it, as the details of such dissection

are always immediately available for inspection or audit.

3. It ensures the work being kept up to date, as the dissection is done daily; there is no waiting for the monthly summary, as the analytical columns only require totalling at the end of the month.

Worked Example

The following credit sales of a trader for the month of August will now be entered (1) in an Ordinary Sales Book, (2) in a Columnar Sales Book, and then posted to Ledger Accounts, so as to illustrate clearly the main points of the present chapter—

- Aug 2 Sold to G. Blackton—
 12 tapestry table covers, 64 in. × 85 in., at 18s. 11d. each.
 3 dozen tweed caps, eight quarter with button on crown, assorted sizes, at 4s. 11d. each.
 24 pairs ladies' glacé kid button boots, sizes 3 to 8, at 26s. 6d. per pair
8. Sold to White & Son—
 100 yd. green baize, 54 in., at 4s. 11d. per yard.
 12 pure Irish linen damask cloths, hemmed, 2½ yd. × 2½ yd., at 28s. 11d. each.
14. Sold to Oliver & Co.—
 3 dozen tweed hats, Alpine shape, assorted sizes, at 8s. 11d. each.
 2 dozen black oilskin coats, double breasted, half lined to waist, at 18s. 6d. each.
20. Sold to E. Greening—
 36 pairs ladies' black glacé, lace shoes, with patent toecaps, sizes 3 to 8, at 26s. 6d. per pair.
 24 pairs ladies' one-bar shoes, in brown crocodile calf, assorted sizes, at 21s. 11d. per pair.
26. Sold to Finchley Bros.—
 200 yd. unbleached calico, twilled, 35 in., at 1s. 5d. per yard.
 12 pairs fine merino wool blankets, bound wide satin, 72 in. × 92 in., at 86s. 6d. per pair.
 2 dozen pure wool tennis shirts, best quality, at 15s. 6d. each.
 2 dozen gent's fleecy wool dressing gowns, plain grey, trimmed cord and girdle to match, at 40s. 6d. each.
 36 pairs gent's tan, willow-calf lace boots, medium toes, sizes 6 to 11, at 22s. 6d. per pair.
31. Sold to Brown & Rugger, Ltd.—
 36 linen crash roller towels, red border, 17 in. × 108 in., at 3s. 11d. each.
 2 dozen men's white wool sweaters, with polo collars, at 10s. 11d. each.
 36 pairs gent's fine plain box-calf Derby boots, hand sewn, broad toes, sizes 6 to 11, at 22s. 9d. per pair.
 36 pairs gent's patent lace shoes, welted soles, with toecaps, sizes 6 to 11, at 24s. 11d. per pair.

RECORDING SALES

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ORDINARY SALES BOOK

(Page 65)

Date	Particulars	Led. Fo.	Details			Totals		
19.. Aug. 2	G. Blackton— 12 Tapestry Table Covers, 64 in. × 85 in., each 18s. 11d. 3 doz. Tweed Caps, eight quarter with button on crown, assorted sizes, each 4s. 11d. 24 pairs Ladies' Glacé Kid Button Boots, sizes 3 to 8, pair 26s. 6d.	71	£	s.	d.	£	s.	d.
			11	7	—			
			8	17	—			
			31	16	—			
8	White & Son— 100 yd. Green Baize, 54 in., yard 4s. 11d. 12 Pure Irish Linen Damask Cloths, hemmed, 2½ yd. × 2½ yd., each 28s. 11d.	72				52	—	—
			24	11	8			
			17	7	—			
14	Oliver & Co.— 3 doz. Tweed Hats, Alpine shape, assorted sizes, each 8s. 11d. 2 doz. Black Oulskin Coats, double breasted, half lined to waist, each 18s. 6d.	73				41	18	8
			16	1	—			
			22	4	—			
20	E Greening— 36 pairs Ladies' Black Glacé Lace Shoes, with patent toecaps, sizes 3 to 8, pair 26s. 6d. 24 pairs Ladies' One-bar Shoes, in brown crocodile calf, assorted sizes, pair 21s. 11d.	74				38	5	—
			47	14	—			
			26	6	—			
26	Finchley Bros.— 200 yd. Unbleached Calico, twilled, 35 in., yard 1s. 5d. 12 pairs Fine Merino Wool Blankets, bound wide satin, 72 in. × 92 in., pair 86s. 6d. 2 doz. Pure Wool Tennis Shirts, best quality, each 15s. 6d. 2 doz. Gent's Fleece Wool Dressing Gowns, plain grey, trimmed cord and girdle to match, each 40s. 6d. 36 pairs Gent's Tan, Willow-calf, Lace Boots, medium toes, sizes 6 to 11, pair 22s. 6d.	75				74	—	—
			14	3	4			
			51	18	—			
			18	12	—			
			48	12	—			
			40	10	—			
31	Brown & Rugger, Ltd.— 36 Linen Crash Roller Towels, red border, 17 in. × 108 in., each 3s. 11d. 2 doz. Men's White Wool Sweaters, with polo collars, each 10s. 11d. 36 pairs Gents' Fine, Plain Box-calf Derby Boots, hand sewn, broad toes, sizes 6 to 11, pair 22s. 9d. 36 pairs Gent's Patent Lace Shoes, welted soles, with toecaps, sizes 6 to 11, pair 24s. 11d.	76				173	15	4
			7	1	—			
			13	2	—			
			40	19	—			
			44	17	—			
		81				105	19	—
						£485	18	—

Page Totals

In many cases the details of each sale, although added and entered in the total column, are not ruled off as in the above example. The line underneath is omitted, because both columns are added at the foot of each page, and the

totals of both columns carried forward page by page until the end of the month. As the figures in the two columns are usually quite different (although equal in amount), the addition of each column serves as a check on the accuracy of the total of each page.

COLUMNAR SALES BOOK

(Page 65)

Date	Particulars	Led. Fo.	Details			Total			Drapery			Out-fitting			Boots and Shoes		
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
19.. Aug. 2	G. Blackton— 12 Tapestry Table Covers, 64 in. × 85 in., each 18s. 11d. 3 doz. Tweed Caps, eight quarter with button on crown, assorted sizes, each 4s. 11d. 24 pairs Ladies' Glacé Kid Button Boots, sizes 3 to 8, pair 26s. 6d.	• 71	11	7	—				11	7	—						
			8	17	—							8	17	—			
			31	16	—	52	—	—							31	16	—
8	White & Son— 100 yd. Green Baize, 54 in., yard 4s. 11d. 12 Pure Irish Linen Damask Cloths, hemmed, 2½ × 2½ yd., each 28s 11d.	72	24	11	8				24	11	8						
			17	7	—	41	18	8	17	7	—						
14	Oliver & Co — 3 doz Tweed Hats, Alpine shape, assorted sizes, each 8s. 11d 2 doz. Black Oilskin Coats, double breasted, half lined to waist, each 18s. 6d.	73	16	1	—							16	1	—			
			22	4	—	38	5	—				22	4	—			
20	E. Greening— 36 pairs Ladies' Black Glacé Lace Shoes, with patent toecaps, sizes 3 to 8, pair 26s. 6d. 24 pairs Ladies' One-bar Shoes, in brown crocodile calf, assorted sizes, pair 21s. 11d.	74	47	14	—										47	14	—
			26	6	—	74	—	—							26	6	—
26	Finchley Bros.— 200 yd. Unbleached Calico, twilled, 35 in., yard 1s. 5d 12 pairs Fine Merino Wool Blankets, bound wide satin, 72 in. × 92 in., pair 86s. 6d. 2 doz. Wool Tennis Shirts, best quality, each 15s. 6d. 2 doz Gent's Fleecy Wool Dressing Gowns, plain grey, trimmed cord and girdle to match, each 40s. 6d. 36 pairs Gent's Willow Calf Lace Boots, medium toes, sizes 6 to 11, pair 22s. 6d.	75	14	3	4				14	3	4						
			51	18	—				51	18	—						
			18	12	—							18	12	—			
			48	12	—							48	12	—			
			40	10	—	173	15	4							40	10	—
31	Brown & Rugger, Ltd.— 36 Linen Crash Roller Towels, red border, 17 in. × 108 in., each 3s. 11d. 2 doz. Men's White Wool Sweaters, with polo collars, each 10s. 11d. 36 pairs Gent's Fine Plain Box-calf Derby Boots, hand sewn, broad toes, sizes 6 to 11, pair 22s. 9d. 36 pairs Gent's Patent Lace Shoes, welted soles, with toecaps, sizes 6 to 11, pair 24s. 11d.	76	7	1	—				7	1	—						
			13	2	—							13	2	—			
			40	19	—										40	19	—
			44	17	—	105	19	—							44	17	—
						485	18	—	£126	8	—	£127	8	—	£232	2	—
									G.L. 82	G.L. 83		G.L. 84					

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71 Dr. G. BLACKTON Cr. 71

72 Dr. WHITE & SON Cr. 72

73 Dr.	OLIVER & CO.	Cr 73
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74 Dr. E. GREENING Cr. 74

75 Dr. FINCHLEY BROS. Cr. 75

76 Dr BROWN & RUGGER, LTD. Cr. 76

IMPERSONAL OR GENERAL LEDGER

81 Dr. SALES Cr. 81

When posting the Columnar Sales Book, the Sales Ledger Accounts would be the same, but the Impersonal Ledger Accounts would be these—

When posting the Columnar Sales Book, the Sales Ledger Accounts would be the same, but the Impersonal Ledger Accounts would be these—

82 *Dr.* SALES—DRAPERY *Cr.* 82

83 *Dr.* SALES—OUTFITTING *Cr.* 83

84 Dr. SALES—BOOTS AND SHOES Cr. 84

[illegible]

Debit Notes and Corrected Invoices

A Debit Note is a statement giving particulars of any charge which has been omitted on a preceding Invoice, or which it has suddenly or unexpectedly become necessary to make, such as error in invoice, carriage paid on goods, the amount of such carriage not being known at the time of sending the invoice.

The following is a specimen—

DEBIT NOTE				
Telegrams: UNIQUE, LONDON		188 KINGSWAY,		
Telephone: CENTRAL 672		LONDON, W.C.2.		
21st August, 19..				
MESSRS CLIFFORD & Co.,				
12 THE PARADE,				
BRIGHTON				
Dr. to				
THE UNIQUE BOOT AND SHOE CO., LTD.				
Terms: Net, Monthly Account				
To Carriage Paid on 6 Cases of Boots and Shoes (Sent as requested to address given, with your own labels attached.)		£	s	d.
		1	3	8

For such items as error in extension of invoice, error in cast of invoice, and under-charge in price, a "Corrected Invoice" is more appropriate, and is sent by many firms. Where, however, the books are not allowed to be altered a Debit Note is sent.

Charges for insurance and freight of goods sent abroad are frequently made by Debit Note, as such charges are not usually known till after the goods have been dispatched.

This kind of Debit Note is nothing more or less than a supplementary invoice, and is either journalized or entered in the Sales Book in the usual way. Thus, the Journal entries for the items mentioned above would be as shown at the foot of this page.

If put through the Sales Book, the sales total at the end of the month would have to be analysed into the proper amount of sales, carriage, insurance, and freight respectively.

Debit Notes have also another meaning and use, as explained in the chapter on Returning Goods.

Copies of Export Invoices

Copies are often required of export and other invoices, and consequently they have to be made out in "duplicate" or two copies, in "triplicate" or three copies, in "quadruplicate" or four copies, and in "quintuplicate" or five copies.

Full weights, measurements, and distinguishing marks and numbers of such cases have to be stated on the invoices.

Some goods are very heavy, but do not occupy much space; other goods are not very heavy, but being bulky require a lot of room; so the Shipping Company charges either by weight or by measurement, whichever pays it best. Forty cubic feet in measurement make one cubic ton of space.

Dating Forward

In some trades there is a custom of dating invoices forward a few weeks or months. In the drapery trade especially the practice is very prevalent.

The theory is that each season is cut off, almost in a water-tight compartment, from those that precede and follow it. Each season ends with its big sale, and the capital thus realized is available for the new stock.

Goods are purchased well beforehand, to be

		JOURNAL			Dr. ^f			Cr.		
					£	s.	d.	£	s.	d.
19..										
Aug. 21	Clifford & Co.				1	3	8			
	To Carriage							1	3	8
	Carriage Paid on 6 Cases of Boots and Shoes, as requested									
21	Customer				22	16	9			
	To Insurance (say)							3	2	6
	,, Freight (say)							19	14	3
	Charges on Goods sent to									
					£24	—	5	£24	—	5

delivered in time for display immediately the sale has closed, and though these purchases may be weeks or months in advance of actual requirements the buyer does not wish to accept the charge for them till near the time they are actually required.

Once a custom of this kind is introduced into a trade it becomes capable of many variations and extensions. Sometimes the goods may not be delivered till near the time they are needed, and the purchase is only a kind of contract, but in others the goods are delivered forthwith.

As many firms will not ask for extended credit, in view of the fact that such a step may seem a sign of financial weakness, this custom enables these firms to secure the same benefit, but in a manner that is not open to question or reproach.

Length of dating forward naturally becomes a selling argument in salesmanship, and commercial travellers use it as a means of meeting the competition of opponents who will follow them and call a little nearer the date when season purchasing can no longer be postponed.

When goods are dated forward, although the goods may be delivered at once, the time of payment runs from the "forward" date. Both dates must be entered in the Sales Book, and also posted into the Ledger, so that payment will not be requested before the proper time. For example—

The "forward" date is noted either in the date column, or against the amount.

Goods on "Appro."

In order to induce sales, goods are often sent on approval, or "on appro.," as it is usually called for short. Particulars of all goods thus sent to prospective buyers are entered in a memorandum book, called an "Appro Day Book," in order to ensure that such goods shall not be forgotten.

The goods returned are credited or crossed through, while those kept are transferred to the Sales Book, and charged to the customer in the usual manner.

Some wholesale houses do a considerable business in this way. A customer of theirs, a retail trader, gets, say, a few chance inquiries for a certain article, and asks a wholesale house to send him some on approval; he obtains them, and perhaps sells some.

After a little while, he may be successful in building up a trade in that particular line, and then stocks the goods regularly, to the mutual benefit of himself and the wholesale firm.

A specimen ruling of such book with a typical entry is shown below.

Goods on Sale or Return

In order especially to push certain articles, they are often sent out to dealers on what is

SALES LEDGER

Dr.				G HENDERSON										Cr.			
19..						£	s.	d.	19..						£	s.	d.
Jan 15																	
as									Or as								
Apr. 1	To Goods .	.	.	.	56	39	17	11	Apr 1								

"APPRO" DAY BOOK

Date Sent	Name	Address	Particulars of Goods Sent	Amount of "Appro." Invoice	Date Sold or Returned	Amount of Goods Returned	Sales Book Folio	Amount of Goods Kept
19..				£ s d.	19 .	£ s d.		£ s d.
Jan. 20	Brown, R.	67 Hope Street, Lincoln	4 "Reliable" Boys' Mackintoshes, fawn shade, assorted lengths, 36 in., 39 in., 42 in., and 45 in., at 30s. 8d.	6 2 8	Jan. 29	3 1 4	79	3 1 4

called "sale or return," that is, if the dealer can sell them, he will then pay for them, but if not, he is under no obligation to keep them, but may return them. This enables the dealer to make a good window display without actually buying anything.

The difference between this system and the previous one is that goods sent "on appro." are not intended to be kept for any length of time, but merely long enough for them to be carefully inspected, so that a decision may be arrived at as to whether they are suitable or not. But with goods sent "on sale or return," it is frequently intended that the goods shall be kept some time. In this class of business circumstances vary very greatly, as do the conditions under which such goods are sent.

As an example of a speedy deal in goods offered in this way, we take the case of the rather late arrival of a heavy consignment of fruit to a wholesale dealer. There had been a hold-up in transit, and though the fruit was still in excellent condition, quick sale was essential.

This was a case where the merchant was obliged to act promptly. There was no time for ordinary salesmanship. There would be a loss of some kind, whatever happened. The

business arises from the fact that it is very attractive to retailers who may have little or no capital, as they are thus able to trade on the capital of others.

Where the buyer is a man of unstable character or where he becomes embarrassed in his circumstances, it may not be easy for the supplying house to avoid loss. Consequently all the circumstances of a case should be well considered before large consignments are sent. Such transactions require a special kind of book-keeping.

Where such issues of goods are very numerous, the best method of treatment is to keep a separate "Sale or Return Day Book (one end for issues and the other end for returns), and also a separate "Sale or Return Ledger."

Should the customer keep or sell any of the articles, the transaction can then be transferred to the Sales Book, and posted to the Sales Ledger in the usual way.

Where such transactions are not very numerous, a book ruled similar to the "Appro. Day Book" could with advantage be used; but very often the transactions are entered in the Sales Book like ordinary sales, and in the Ledger marked *in red ink* "S or R" at the side of the amount, thus—

SALES LEDGER

Dr.				M. THOMPSON				Cr			
19..				£	s.	d.	19..				
Jan. 12	To Goods .		78	46	15	10	S or R				

merchant got over the difficulty by dispatching the goods forthwith to several of his most suitable customers, explaining the circumstances and offering an invoice in each case at a tempting price, knowing well that any goods not accepted would be valueless.

In some classes of trade it is an ordinary method of business for a considerable part of shopkeeper's stock to be held on sale or return. The customer, in consideration of the attractive display he is able to make, and the big stock he can hold without locking up his capital, may act as a kind of interested agent, devoting more than usual attention to this part of his business.

One of the chief problems of this class of

The argument advanced in support of this method is that many of the dealers already have Ledger Accounts, being purchasers of other goods, and therefore it is much better to keep all their transactions together.

From the accountant's point of view, this method gives rise to three errors, which must consequently be adjusted at balancing time. The sales, debtors, and stock are all incorrect.

Supposing, for example, the goods still on sale or return amounted, at the end of the year, to £337 17s. 10d. A Journal entry would be necessary, taking the amount out of the Sales Account, and crediting it to a Sales Suspense Account, thus—

JOURNAL

JOURNAL										Dr.			Cr.			
19..										£	s.	d.	£	s.	d.	
Dec. 31		Sales Account								337	17	10				
		To Sales Suspense Account :											337	17	10	
		(Being Amount of Goods on Sale or Return still Unsold at this date)														

On the Balance Sheet, the debtors for goods on sale or return should be shown separately from the other debtors, thus—

are sold on credit, such sales must be journalized. They must not be entered in the Sales Book, which must be kept for sales of the firm's goods.

BALANCE SHEET

LIABILITIES			ASSETS		
	£	s. d.		£	s. d.
Sales Suspense A/c (for Goods on Sale or Return)	337	17 10	Sundry Debtors (for Goods on Sale or Return)	337	17 10

The goods, at cost price, should be included in the Stock Sheets for the purpose of stock-taking, and, on the Balance Sheet, shown as "Stock in customers' hands."

Such sales are quite usual in the cycle and other trades. It is very doubtful, however, whether the original purpose of such sales is always fulfilled; for, in many cases, the goods come back, not only unsold, but also considerably "shop-soiled," and have consequently to be disposed of afterwards at a substantial reduction off the usual price. The firm has reaped no benefit, except perhaps that it has had the advantage of a good advertisement.

Sale of Goods on Commission

It is a common practice for traders, in addition to looking after their own business, to act as agents for other people's goods, receiving in return for their services a commission, generally a percentage of the selling price.

Such sales must not be entered in the trader's Sales Book, which must be kept for sales of his own goods, so that he may have a proper record of the turnover of his own business.

In some cases the sales are made from samples, and when the order is received, it is passed on to the owner of the goods, only the commission earned being by Journal entry debited to the owner and credited to a Commission Account.

In other cases the goods are taken into store, and a record kept of the sales made. A separate Sales Book or Journal should be kept for such sales.

This is also customary in the wholesale trade as well as in the retail. Many wholesale grocers and confectioners adopt the plan, though not necessarily the same method of book-keeping.

Sale of Assets

It does happen occasionally that some of the firm's assets are disposed of, either because they are worn out and no longer serviceable, or because they are to be replaced by more up-to-date ones.

Thus, if machines or furniture and fixtures

Packages and Packing Material

In many businesses, packages are entered in the Sales Book and charged on the invoice.

This prevents them being forgotten.

Such packages are usually what is termed "returnable"; that is, if they are sent back within a stipulated or reasonable time, carriage paid and in good condition, the full amount charged for them will be allowed, and credited to the customer's account.

Returnable cases generally have the name and address of the owner printed on the back of the address labels; so that it is only necessary, when the case is empty, to untack the labels, reverse and retack them, and send the empties back.

A good deal of packing material is not charged for at all, such as waxed paper, tissue paper, brown paper, cardboard, corrugated straw-board, straw, canvas wrapping, and twine.

There are also packages which are an indispensable or integral part of the goods sold, such as the box of drawing instruments, the case of cutlery or jewellery, the chest of tools, the flask of oil, the bottle of scent, the tin of preserved fruit.

The price includes the case or receptacle, and there is no question of its return.

Certain goods, too, have their own special packages. Such are the barrel or cask of beer, vat of wine, churn of milk, drum of oil, carboy of acid, bottle of wine or spirits, keg of paint, tub of butter, bucket of lard, basket of fruit or flowers, hamper of game or fruit, barrel of apples or flour (American), sack of flour (English), sack of coal, bag of potatoes or meal, crate of cycles, reel of wire or tubing or paper, truck of coal.

Then we have the zinc-lined or tin-lined case, in which goods are soldered down in an inner covering as well as enclosed in an outer case; this is more particularly the custom with export goods, which must be kept air-tight and water-tight, being damaged or rendered useless if water or dampness comes into contact with them

In fact, packages are as numerous and as various as the weights and measures in the different trades.

Methods of treating these empty packages differ in the various trades.

Packages Account

Where packages have been charged for in the Sales Book, such packages must not be included in the total sales for the month, as it would mean showing a fictitious turnover. The Sales total must be analysed into so much sales and so much packages, and the latter posted to the credit of a separate Packages Account in the General or Impersonal Ledger.

The Packages Account is usually debited with the cost of the packages and of the packing material, also with the returns from customers. It is credited month by month with the amount charged to customers, as per the analysed sales total.

At balancing time, the account is credited with the value of the stock of "serviceable" packages and packing material on hand; the account is then balanced, and the balance transferred to the debit of the Trading or the Profit and Loss Account.

Packages no longer "serviceable" are excluded from the inventory, and put on the "scrap heap," cases, however, being broken up, and either sold or used for firewood.

But there are some businesses in which a rather different set of rules is customary, and may be regarded as essential to the case.

A biscuit manufacturer would find it very

difficult to keep a separate account for biscuit tins and cases, as, though these are returnable, they can only be treated with any degree of satisfaction on the same basis as the goods themselves, and are included as part of the charge on every invoice just as if they were goods and only allowed for when actually returned.

The fact that with such a manufacturer a large part of the Ledger totals may be represented by returnable packages, presents difficulties in valuation and stocktaking, but these are insignificant, in comparison with the amount of work that double separate empties accounts would involve.

Most of the outside biscuit cases are numbered and a register is kept and, from the assumption that the number of these in service outside the factory bears a fairly continuous ratio to the number of tins also in use, a rough estimate can be made, which, although only an estimate, answers all practical purposes.

It should be borne in mind that the term "Packages Account" is merely a general term; and that where a business uses only one kind of package, the Packages Account will be called by the specific name of that particular package; thus, in a brewery, the Barrels Account, in a cycle manufacturer's, the Crates Account.

Further, packing material may be charged to a separate account, under the more appropriate name of the special article used. These differences, however, are mere matters of detail, and in no way affect the general principles of book-keeping involved.

CHAPTER IX

RETURNING GOODS

It is fortunate that in those cases where awkward and regrettable mistakes occur the average man in business does not act up to the limit of his fullest legal powers.

The trader who becomes noted for an aggressive attitude when the law gives him an advantage over a trifle, is often avoided by salesmen who dislike unpleasant incidents, and in consequence usually pays a long price for his "rights."

A case occurred a little while ago, in which a trader nearly secured a most valuable sole agency for an important commodity, but at the last moment the manufacturers became aware of his habitually contentious attitude over trifles, and broke off negotiations.

The same man, after a time, found himself shunned by many of the representatives of leading supplying houses, and could only obtain their goods with difficulty.

Manufacturers and others who find that the slightest error on their part is pounced upon by a customer and made an excuse for putting them to difficulty and expense, rarely hesitate to suggest that such a buyer "should obtain his supplies locally."

Fortunately there is a great deal of give and take in business, and the one place in which most firms realize that there is the greatest need for this is just precisely where the quibbler "returns the goods."

The return of goods in many cases has a most shattering effect upon a supplying house.

As a manufacturer once declared "I would at any time sooner credit the whole value of a parcel than have it returned, the moral effect on the whole factory is so bad."

On the other hand, it must also be remembered that there are many manufacturers, especially the proprietors of important brands, who make a special point of requesting their customers to return everything that is not in a perfect condition. There are leading retailers at the present time who are making a leading sales argument of the fact that they will take back any goods that they sell, and ask no question.

As regards the legal powers of a buyer to return goods, the rights of an over meticulous trader are almost surprisingly great.

Power to Return Goods

The Sale of Goods Act gives the buyer who receives *less* than the quantity he ordered, or *more* than the quantity he ordered, the legal right, in each case, to return the whole of the goods.

Further, if a buyer receives some goods he ordered, but mixed with others of a different kind, he may return the whole of the goods.

If the buyer wishes, however, he may accept the less quantity, or the greater quantity, or such only as he ordered, but he must, in each case, pay at the contract rate for what he does not return.

The following are the provisions of Sect. 30 of the Act—

(1) Where the seller delivers to the buyer a quantity of goods less than he contracted to sell, the buyer may reject them, but if the buyer accepts the goods so delivered he must pay for them at the contract rate.

(2) Where the seller delivers to the buyer a quantity of goods larger than he contracted to sell, the buyer may accept the goods included in the contract and reject the rest, or he may reject the whole. If the buyer accepts the whole of the goods so delivered he must pay for them at the contract rate.

(3) Where the seller delivers to the buyer the goods he contracted to sell mixed with goods of a different description not included in the contract, the buyer may accept the goods which are in accordance with the contract and reject the rest, or he may reject the whole.

(4) The provisions of this section are subject to any usage of trade, special agreement, or course of dealing between the parties.

Allowances

In a good many cases, the return of goods can be, and often is, avoided by the trader granting the customer an allowance or reduction in price. It often pays the trader to do this, rather than have to bear the return carriage of the goods.

The allowance is generally made on a special form called a "Credit Note."

Allowances are very usual in cases of short weight, overcharge, breakage or damage of part of the articles, and empty cases or packages returned. Sometimes, a separate Allowances Account is kept to record such items, but usually they are entered in the Returns Books.

In any case, they must be charged to the Trading Account, as these allowances are in

effect reductions of the buying or selling prices, and therefore affect the *gross* profit; they should not be charged to Profit and Loss Account, which deals with the expenses of running the business, and the ascertainment of the net profit.

Return of Goods

Goods are returned for a variety of reasons. They may be of a wrong kind, not up to sample, inferior in quality, or a wrong colour or size, there may be some fault or blemish in them, or they may be broken or damaged in transit.

Returns may be either outwards, that is, goods previously purchased being sent back *by the trader*; or inwards, that is, goods previously sold being sent back *to the trader*.

Separate books are kept for each kind of returns.

Debit Notes

Many firms, when returning goods or empties, or making claims for allowances, send their own Debit Notes charging the receiver or creditor without waiting for the other firm's Credit Note. This is done in order to prevent such matters being temporarily overlooked or entirely forgotten.

The following is a specimen—

DEBIT NOTE											
Telegrams CORN, BASINGSTOKE. Telephone MARKET SQUARE 478.								No. 121			
279 HIGH STREET, BASINGSTOKE, HANTS. 6th October, 19..											
MESSRS. BROWN & SMITH, 278 MARK LANE, LONDON, E.C. 2.											
Dr. to ROBERTSON, SON & CO. CORN, HAY, STRAW, AND SEED MERCHANTS											
19..	2	qr. Wheat	:	:	46/8	£	s	d.	£	s	d.
1	sack Oats	:	:	18/6	4	13	4	6	5	11	10
Returned per G.W. Rly. to-day.						£5	11	10			

This kind of Debit Note must not be confused with the kind mentioned in the previous chapter

on Recording Sales; that kind is merely an additional invoice, deals with Sales or Sale Charges, and debits the debtor. This kind deals with Purchases Returns, and debits the creditor.

Debit Note Book

The Debit Note Book, where used for returns and allowances, is generally a printed and numbered carbon-copy or counterfoil book.

The detachable part is sent to the firm concerned, and the counterfoil or carbon copy is kept for reference, and also for writing up the Purchases Returns and Allowances Book.

Ordinary Purchases Returns Book

The purchases actually returned, and the allowances granted for short weight, breakages, and other causes, are frequently entered in the same book, especially where a Debit Note Book is in use.

The Ordinary Purchases Returns Book, or Returns Outward Book, or Bought Returns Book as it is also called, is a subsidiary book or book of first entry, ruled like its fellow book, the Purchases Book, the columns, however, being for date of return, number of Debit Note, particulars of returns, ledger folio, details, and total.

PURCHASES RETURNS BOOK

Date	No. of Debit Note	Particulars	Led fol.	Details			Total		
				£	s	d	£	s	d

The items are entered daily from the Debit Note Book.

The money columns are added, and the amounts carried forward page by page until the end of the month. The separate entries are posted daily to the debit of the various personal accounts affected in the Bought Ledger, "*To Returns*," and the monthly total direct to the credit of the Purchases Returns and Allowances Account in the General or Impersonal Ledger, "*By Sundries*," or "*By Sundry Creditors*," thus completing the double entry.

At balancing time, the Purchases Returns and Allowances Account is closed by transfer to Trading Account, in which it appears usually as a deduction from the purchases, but sometimes as a separate item on the credit side.

Columnar Purchases Returns Book

This is a subsidiary book or book of first entry, ruled like its fellow book, the Columnar Purchases Book, the columns, however, being

Worked Example

The following purchases returns and allowances of a trader for the month of October will now be entered (1) in an Ordinary Purchases

COLUMNAR PURCHASES RETURNS BOOK

Date	Debit Note	Particulars	Led fol	Details	Totals	Wheat	Oats	Barley	Maize
				£ s d	£ s d	£ s d	£ s d	£ s d	£ s d

for date of return, number of Debit Note, particulars of returns, ledger folio, details, total, and for the same names of accounts in the analytical section as in the Columnar Purchases Book.

The book is entered up daily from the Debit Note Book.

The separate entries are posted day by day to the Bought Ledger, to the debit of the personal accounts affected.

The total of the total column is not posted at all; it is used to check the cross cast of the analysis columns. The totals of the analytical columns are posted direct to the General or Impersonal Ledger, to the credit of the nominal accounts affected, thus completing the double entry

Returns and Allowances Book, (2) in a Columnar Purchases Returns and Allowances Book, and then posted to Ledger Accounts, in order to show clearly the book-keeping work in connection with Returns Outwards—

- 19..
Oct. 6. Returned to Brown & Smith—
2 qr. wheat at 46s. 8d., 1 sack oats at 18s. 6d.; D/N 121.
15. Returned to R. Phillips—
2 sacks maize at 21s. 9d., 1 sack barley at 19s. 8d.; D/N 122.
16. T. Simpson & Co. allow a claim of 1s. 2d per sack on 10 sacks of oats purchased on 11th inst., D/N 123
25. Returned to O. Clinker—
2 sacks oats at 27s. 9d., 1 sack maize at 23s. 9d.; D/N 124.
31. Returned to A. Spinks & Son—
1 sack wheat at 26s. 6d.; D/N 125.

ORDINARY PURCHASES RETURNS BOOK OR RETURNS OUTWARDS BOOK (Page 92)

Date	Debit Note	Particulars	Ledger Folio	Details	Totals
19.. Oct. 6	121	Brown & Smith— 2 qr. Wheat, 46s. 8d. 1 sack Oats, 18s. 6d.	71	£ s. d. 4 13 4 18 6	£ s. d. 5 11 10
15	122	R. Phillips— 2 sacks Maize, 21s. 9d. 1 sack Barley, 19s. 8d.	72	2 3 6 19 8	3 3 2
16	123	T. Simpson & Co.— Allowance on 10 sacks Oats, 1s. 2d.	73	11 8	11 8
25	124	O. Clinker— 2 sacks Oats, 27s. 9d. 1 sack Maize, 23s. 9d.	74	2 15 6 1 3 9	3 19 3
31	125	A. Spinks & Son— 1 sack Wheat, 26s. 6d.	75	1 6 6	1 6 6
		G.L.	81		£14 12 5

COLUMNAR PURCHASES RETURNS BOOK

(Page 92)

Date	Debit Note	Particulars	Ledger Folio	Details	Totals	Wheat	Oats	Barley	Maize
19.. Oct 6	121	Brown & Smith— 2 qr Wheat, 46s 8d 1 sack Oats, 18s 6d.	71	£ s d. 4 13 4 18 6	£ s d. 5 11 10	£ s d. 4 13 4	£ s d. 18 6	£ s d.	£ s d.
15	122	R. Phillips— 2 sacks Maize, 21s. 9d 1 sack Barley, 19s 8d.	72	£ s d. 2 3 6 19 8	£ s d. 3 3 2			£ s d. 19 8	£ s d. 2 3 6
16	123	T Simpson & Co.— Allowance on 10 sacks Oats, 1s 2d.	73	£ s d. 11 8	£ s d. 11 8		£ s d. 11 8		
25	124	O. Clinker— 2 sacks Oats, 27s. 9d. 1 sack Maize, 23s 9d.	74	£ s d. 2 15 6 1 3 9	£ s d. 3 19 3		£ s d. 2 15 6		£ s d. 1 3 9
31	125	A. Spinks & Son— 1 sack Wheat, 26s. 6d.	75	£ s d. 1 6 6	£ s d. 1 6 6	£ s d. 1 6 6			
					£14 12 5	£5 19 10	£4 5 8	£19 8	£3 7 3
						GL 82	GL 83	GL 84	GL 85

BOUGHT OR PURCHASES LEDGER

71	Dr.		BROWN & SMITH		Cr.	71
19.. Oct 6	To Returns	. . . . . 92	£ s d. 5 11 10			
72	Dr.		R. PHILLIPS		Cr.	72
19.. Oct 15	To Returns	. . . . . 92	£ s d. 3 3 2			
73	Dr.		T. SIMPSON & CO.		Cr.	73
19.. Oct 16	To Allowance	. . . . . 92	£ s d. 11 8			
74	Dr.		O. CLINKER		Cr.	74
19.. Oct. 25	To Returns	. . . . . 92	£ s d. 3 19 3			
75	Dr.		A. SPINKS & SON		Cr.	75
19.. Oct. 31	To Returns	. . . . . 92	£ s d. 1 6 6			

GENERAL OR IMPERSONAL LEDGER

81	Dr.		PURCHASES RETURNS AND ALLOWANCES		Cr.	81
				19.. Oct. 31	By Sundry Creditors 92	£ s d. 14 12 5

When posting the Columnar Purchases Returns Book, the Bought Ledger Accounts would be the same, but the General or Impersonal Ledger accounts would be as under—

Credit Note Book

The Credit Note Book is generally a printed and numbered carbon-copy or counterfoil book. The detachable part is sent to the customer ;

82	Dr.	PURCHASES RETURNS—WHEAT										Cr.	82	
								19.. Oct. 31	By Sundry Creditors .	92		£ 5	s. 19	d. 10
83	Dr.	PURCHASES RETURNS—OATS										Cr.	83	
								19.. Oct. 31	By Sundry Creditors .	92		£ 4	s. 5	d. 8
84	Dr.	PURCHASES RETURNS—BARLEY										Cr.	84	
								19.. Oct. 31	By Sundry Creditors .	92		£ 19	s. 19	d. 8
85	Dr.	PURCHASES RETURNS—MAIZE										Cr.	85	
								19.. Oct. 31	By Sundry Creditors .	92		£ 3	s. 7	d. 3

Credit Notes

A Credit Note is a document similar to an invoice, but printed and written in red ink, as it does not charge the customer with anything but makes him either a specific allowance, as in the case of goods or empties returned, or an agreed allowance as in the case of claims.

The following is a specimen—

the carbon copy of counterfoil is kept for reference, and also for writing up the Sales Returns and Allowances Book.

The use of an official printed form and book for allowances also acts, to some extent, as a safeguard against fictitious allowances being credited to a customer in order to conceal defalcations.

Ordinary Sales Returns Book

The goods actually returned, the empties sent back, and the allowances made in respect of short weight, partial damage or breakage, inferior quality, or for other causes, are usually entered in the same book, more particularly where a Credit Note Book is in use.

The Ordinary Sales Returns Book, or Returns Inwards Book, or Sold Returns Book as it is also called, is a subsidiary book or book of prime entry, ruled like its fellow book, the Sales Book. The columns, however, are for date of return, number of Credit Note, particulars of returns, ledger folio, details, and total.

The items are entered daily from the Credit Note Book. The money columns are added, and the amount carried forward page by page until the end of the month.

The separate entries are posted day by day to the credit of the various personal accounts affected in the Sales Ledger, "*By Returns*," and the monthly total direct to the debit of the Sales Returns and Allowances Account in the General or Impersonal Ledger, "*To*

CREDIT NOTE				No. 139
Telegrams CLOTH, LONDON	624	HIGH STREET,		
Telephone. HOLBORN 378		HOLBORN,		
		LONDON, W C 2		
		16th April, 19..		
MR. E. G BOOKER,				
22 CRESCENT ROAD,				
NOTTINGHAM.				
<i>In Credit with</i>				
THE LONDON CLOTH CO., LTD.				
Terms: Monthly Account, Net.				
By Return of 2 Empty Cases, charged on 5th April			£	s. d.
„ Allowance on—				
350 yd. of Grey Cloth	3d.		4	7 6
220 yd. of Green Cloth	1d		18	4
			£5	16 6

Sundries” or “*To Sundry Debtors*,” thus completing the double entry.

At balancing time, the Sales Returns and Allowances Account is closed by transfer to Trading Account, in which it appears usually as a deduction from the Sales, but sometimes as a separate item on the debit side.

Columnar Sales Returns Book

The Columnar Sales Returns Book is a subsidiary book or book of original entry, ruled like its fellow book, the Columnar Sales Book, the columns, however, being for date of return, number of Credit Note, particulars of returns, ledger folio, details, total, and for the same names of accounts in the analytical section as in the Columnar Sales Book.

The items are entered up daily from the Credit Note Book. The separate entries are posted daily from the Credit Note Book. The separate entries are posted daily to the Sales Ledger, to the credit of the personal accounts concerned.

The total of the total column is not posted at all; it is used to check the cross cast of the analysis columns. The totals of the analytical columns are posted direct to the General or Impersonal Ledger, to the debit of the nominal accounts affected, thus completing the double entry.

Worked Example

The following sales returns and allowances of a trader for the month of September will now be entered (1) in an Ordinary Sales Returns Book, (2) in a Columnar Sales Returns Book, and then posted to Ledger Accounts, in order to show fully the book-keeping in connection with Returns Inwards—

- 19..
- Sept. 5 Phillips & Son return—
 2 Axminster hearth rugs at 50s. 9d.
 1 mohair slip mat at 12s. 6d.
 1 corridor rug at 63s. 6d.
 Sent them C/N 61.
12. Senter & Co. return—
 25 yd. plain brown, extra thick, linoleum at 6s. 7d. yard.
 1 sheepskin mat at 16s. 9d.
 Sent them C/N 62.
- 16 Made P. Brownley an allowance on 126 yd. of printed parquet linoleum at 1s. 1d. yard (C/N 63).
- 23 Sunbury Stores, Ltd., return—
 1 standard Axminster seamless carpet at £17 10s. 6d.
 1 mohair rug at 39s. 9d.
 Sent them C/N 64.
- 30 E. G. Robertson returns—
 1 superfine English, Wilton carpet at £20 15s. 9d.
 2 reversible wool rugs at 43s. 8d.
 Sent them C/N 65.

ORDINARY SALES RETURNS BOOK OR RETURNS INWARDS BOOK (Page 87)

Date	Credit Note	Particulars	Ledger Folio	Details	Totals
19.. Sept. 5	61	Phillips & Son— 2 Axminster Hearth Rugs, 50s. 9d. 1 Mohair Slip Mat, 12s. 6d. 1 Corridor Rug, 63s. 6d.	51	£ s. d. 5 1 6 12 6 3 3 6	£ s. d. 8 17 6
12	62	Senter & Co.— 25 yd. Plain Brown Linoleum, extra thick, 6s. 7d. 1 Sheepskin Mat, 16s. 9d.	52	8 4 7 16 9	9 1 4
16	63	P. Brownley— Allowance on 126 yd. Printed Parquet Linoleum, 1s. 1d.	53	6 16 6	6 16 6
23	64	Sunbury Stores, Ltd.— 1 Standard Axminster Seamless Carpet 1 Mohair Rug, 39s. 9d.	54	17 10 6 1 19 9	19 10 3
30	65	E. G. Robertson— 1 Superfine English Wilton Carpet 2 Reversible Wool Rugs, 43s. 8d.	55	20 15 9 4 7 4	25 3 1
		G.L.	41		£69 8 8

RETURNING GOODS

81

COLUMNAR SALES RETURNS BOOK

(Page 87).

Date	Credit Note	Particulars	Ledger Folio	Details	Totals	Carpets	Rugs and Mats	Lino- leum
19.. Sept. 5	61	Phillips & Son— 2 Axminster Hearth Rugs, 50s. 9d. 1 Mohair Slip Mat, 12s. 6d. 1 Corridor Rug, 63s. 6d.	51	£ s. d. 5 1 6 12 6 3 3 6	£ s. d. 8 17 6	£ s. d.	£ s. d. 5 1 6 12 6 3 3 6	£ s. d.
12	62	Senter & Co — 25 yd. Plain Brown Lino- leum, extra thick, 6s. 7d. 1 Sheepskin Mat, 16s. 9d.	52	8 4 7 16 9	9 1 4		16 9	8 4 7
16	63	P. Brownley— Allowance on 126 yd Printed Parquet Linoleum, 1s. 1d.	53	6 16 6	6 16 6			6 16 6
23	64	Sunbury Stores, Ltd.— 1 Standard Axminster Seam- less Carpet 1 Mohair Rug 39s. 9d.	54	17 10 6 1 19 9	19 10 3	17 10 6	1 19 9	
30	65	E G Robertson— 1 Superfine English Wilton Carpet 2 Reversible Wool Rugs, 43s. 8d.	55	20 15 9 4 7 4	25 3 1	20 15 9	4 7 4	
				£69 8 8	£38 6 3	£16 1 4	£15 1 1	
					G.L. 42	G.L. 43	G.L. 44	

SALES LEDGER

51 Dr.	PHILLIPS & SON	Cr. 51
	19.. Sept. 5 By Returns	£ s. d. 8 17 6
52 Dr.	SENER & CO.	Cr. 52
	19.. Sept. 12 By Returns	£ s. d. 9 1 4
53 Dr.	P. BROWNLEY	Cr. 53
	19.. Sept. 16 By Allowance	£ s. d. 6 16 6
54 Dr.	SUNBURY STORES, LTD.	Cr. 54
	19.. Sept. 23 By Returns	£ s. d. 19 10 3
55 Dr.	E. G. ROBERTSON	Cr. 55
	19.. Sept. 30 By Returns	£ s. d. 25 3 1

IMPERSONAL OR GENERAL LEDGER

41 Dr.		SALES RETURNS AND ALLOWANCES										Cr. 41	
19.. Sept. 30	To Sundry Debtors . . .	87	£	69	s	8	d	8					

When posting the Columnar Sales Returns Book, the Sales Ledger accounts will be the same, but the accounts in the Impersonal or General Ledger will be as under—

and July will, strictly speaking, be inaccurate, June will be too large, and July will be too small.

A similar practice is followed with Purchases .

42 Dr.		SALES RETURNS—CARPETS										Cr. 42	
19.. Sept. 30	To Sundry Debtors . . .	87	£	38	s	6	d	3					

43 Dr.		SALES RETURNS—RUGS AND MATS										Cr. 43	
19.. Sept. 30	To Sundry Debtors . . .	87	£	16	s	1	d	4					

44 Dr.		SALES RETURNS—LINOLEUM										Cr. 44	
19.. Sept. 30	To Sundry Debtors . . .	87	£	15	s	1	d	1					

Posting Returns Totals

In some firms the Sales Returns for the month are taken off the sales for the same month, that is, actually deducted from the sales total in the Sales Book, in order to arrive at the net sales for each particular month, and to post only the net total to the Sales Account.

This method, however, does not always give the correct sales for each month. Goods bought at the end of one month—say June—may not be returned till the following month, July. Obviously then, under this method, the sales totals for both June

Returns. They are deducted from the total in the Purchases Book, in order to arrive at the net purchases for each month.

In the great majority of firms, however, the usual practice is to post the Returns to separate accounts, and to keep them separate throughout the year or half-year. Only in the Trading Account are the Returns deducted from the Purchases and Sales respectively, thus showing the net Purchases and the net Sales for the yearly or half-yearly trading period as the case may be.

CHAPTER X

THE CORRESPONDENCE OFFICE

At this point it seems desirable that, having considered the purchase and sale of goods, their return, if necessary, and the various records concerning them that are made in the book-keeping office, the variety of matters connected with the communications sent by a firm to its customers should be dealt with.

There are three principal methods of communication between a firm and its customers—

1. Personal, such as business interviews, commercial travelling, retail salesmanship, and canvassing,

2. Advertising, through trade papers, the general press, circulars, and booklets; and

3. Letters

It is impossible to state the relative importance of the three, because methods of operation vary. Broadly speaking, there are three principal types of business, and each would place a different activity as its leading characteristic.

As indicating the first of these, the business in which the personal element predominates, a statement made by a large manufacturer to one of his travellers is illuminating.

"We want no letters. We are in business for business, not for literary exploits. We want cash and orders and anything short of these serves no useful purpose. If we get letters from your customers on subjects which are not very pressing we shall ask them to raise the point on your next visit. If they are important and urgent we shall send them to you to attend to, if possible by a personal call, if not by some postponement on your part till your next journey. If you, who know your customers, can't deal with them, I am sure that we, who don't know them, won't be able to do so."

This is one type of business, and, in certain ways, a very good type too. It is the kind of trade in which the traveller is an important man who has very full authority. The man in control in this class of trade must first and foremost be a judge of men, because he stands or falls by his ability in choosing men of capacity and initiative who are able to carry out the "personality" idea, and use their own judgment.

The second class of business, that in which advertising is the chief means of commanding

trade, naturally exalts its publicity department or publicity arrangements to the first place of importance.

Commercial Correspondence

In the third class of business, correspondence has the highest place.

There are firms in this country which owe their success, and often very great success, to the skill of the letter writer.

The head of one such organization recently declared that it was by no means uncommon for letters of six, eight, or ten pages of typescript to be sent in reply to a single inquiry.

In another instance the correspondence officials of the firm (they would probably scorn any baser title) have luxuriant private offices and their own excellently qualified secretaries; and pride themselves upon the degree of intimacy they are able to introduce into their correspondence, and that also marks the letters they receive themselves.

Hence it will be seen that no special place in order of importance can be assigned to correspondence. In these days, as established houses tend increasingly to become not only specialists in one line of trading, but also masters in every branch and department, the value of the good correspondent increases.

This fact is important, especially to any beginner in office work who is anxious to better his position. The time is rapidly passing for careless and indifferent letter writing, and large numbers of firms are beginning to look out for men and women of special aptitude and ability to carry out this work.

Originality

Letter writing is by no means easy, and, where originality of style and treatment is aimed at, a single letter can consume a great deal of time. In the past this fact has had one important consequence, which is constantly a subject of controversy and inquiry, not only in business circles but in the public press.

This is the subject of using stereotyped phrases, such as "Your favour," "Yours of even date," "Respecting the same," "Thanking you in anticipation."

Without doubt such well-worn and trite expressions are very convenient, as they are recognized forms of politeness, and they roll off the lips easily when a letter is being dictated.

A correspondent in one of the great London newspapers, in answering a protest against their use, very sensibly pointed out that "if a business man, in addition to his commercial labours, must become a prose stylist every time he takes his pen in hand his work would become impossible."

It would!

Let us assume that an ordinary letter contains 250 words, and a man dictates or writes ten letters a day in the ordinary course of business and merely as dealing with his morning correspondence, his weekly output would be 15,000 words or three quarters of a million words a year; a quantity that most prolific authors and journalists would regard with respect and even awe.

It is rather to be doubted if the ordinary business man would be well advised to become more original. Where a well worn phrase meets the case it is often sound sense for the busy man to use it and save the time that can be more profitably used elsewhere.

But (and it is an important qualification), if three or four handy phrases can constantly be used in a single day's correspondence, it may be quite worth while for any man with a large mass of correspondence to manufacture a few set phrases of his own, and, better still, to change them month by month as he thinks out new ones.

Thus "thanks for your esteemed order" could be changed into "it is very good of you to send me your order," and "thanking you in anticipation" into "I am already hoping I may thank you for this courtesy."

If the ordinary business man with many tasks awaiting him and possibly only the first hour of the day in which to attend to his correspondence, may be excused for using trite phrases, it is rather doubtful if the man whose especial task is letter writing can be equally absolved.

Much depends upon the time at his disposal and the volume of his correspondence. If he works single handed or can spare only a little time from other duties, and if most of his subjects are of an exceedingly formal character, he can do little but follow the line that is most obvious to him.

The Correspondence Clerk

But where the correspondence clerk is a responsible and recognized specialist, working in close touch with the management or directorate, and allowed wide freedom of action, he has usually a great opportunity of making his department a very valuable and forceful part of the whole business.

In very important matters involving the decision of the directors, the policy of the firm, and extensions and developments of trade through new avenues, his letter would necessarily be the expression of other people's decisions, but in more indefinite proposals and in following up those subjects that may lead to useful results, though rather hazy and intangible at the start, his tact and judgment can be very valuable.

In every letter he can, however, do a great deal toward clothing his firm with the qualities that bring respect, and he can indicate a genial cordiality that in its persistence shall add to the firm's goodwill.

His chief opportunity lies among the firm's customers and those whose accounts are being sought for, by the writing of letters designed to promote sales.

There are many good rules of correspondence, among them being: (1) Accuracy; (2) Courtesy; (3) Clearness; (4) Legibility; (5) Aptness; and (6) The Human Touch.

Accuracy

This must come first in any order of arrangement. One is tempted to place the second and the fifth qualities before it, but a moment's reflection shows the impossibility of such a plan.

Minor errors, of course, may not involve serious consequences, but the letter of a firm is a legal instrument and a mistaken statement on an important point can be very costly.

Some time ago a business man was asked his advice about a proposed purchase of debentures. In dictating his reply he used the phrase "I cannot personally guarantee these debentures." By an oversight his secretary omitted the word "cannot" not only from the typed copy but also from the original note.

The letter was typed, skimmed rather than read, signed, and posted, and the recipient reading "I personally guarantee these debentures," invested substantially in them.

An intended warning thus became an encouragement to buy some useless debentures and a source of loss.

Accuracy in stating conditions, prices, and facts is so important that the good correspondent usually keeps a very careful look-out when he deals with certain selected subjects.

He develops, or should do so, an instinct similar to that of a certain sub-editor of a paper, who always re-reads a line containing a person's name.

"It can't be libel if no one is mentioned" he would say, "but if anyone is mentioned there is always a risk of a slip."

In the same way a true correspondence clerk will develop an intention to read slowly, when contracts and serious obligations are under reference.

A very important part of accuracy in correspondence has to do with "the other man's side" of the case. A reply may be precisely accurate in its statements, and yet be no reply at all.

Just as many students fail in examinations through neglecting thoroughly to understand the question, so much correspondence misses fire because the letter received to which a reply is to be sent, is not clearly understood.

This is sometimes unfortunate in its results.

The man who asks a question and is replied to about his "complaint," becomes bewildered, and yet many persons do ask questions in a manner that gives the impression that they are annoyed.

Curiously enough this class of error in reading is often made by the quick, alert kind of man who has a ready imagination. Reading a letter hastily, his eye lights on a word or two and, because that phrase suggests some other point that is before his mind at the time, a wrong reply is dictated.

A correspondence clerk of a jam firm, for example, that has been receiving many complaints about its Plum and Apple jam in 7 lb. jars, receiving an inquiry for prices of that line, might carelessly think "Here is another of them" and rattle off a standard reply.

Probably the best check upon this kind of swiftness is to encourage the typist to read both the letters and the replies, and feel free to question any apparent inaccuracy in treatment.

Courtesy

A firm's correspondent has great need to learn all the arts of courtesy. Letters that are received are frequently very lacking in this respect, and when they come from customers it is often difficult to answer in such a manner

as shall protect the firm's interests, and, at the same time, conciliate the correspondent.

The chief partner of a great wholesale business recently declared that he would allow no person in his employ to write a letter to a customer unless he had had at least twelve months' experience of personal salesmanship.

This may be going farther than is necessary, but it indicates a very important aspect of business. The man who has seen the buyers in their own shops and offices is better able to realize their difficulties and to grasp why a buyer appears to speak and write a different language from that of a salesman.

He will then realize that many a sharply written note may be by no means the violent outburst it appears to be, but in reality may be intended as a sincere protest or even as a tentative suggestion.

A buyer, too, who is on good terms with the salesman, and whose usual method of conversation with him may take the form of playful *badinage*, in writing to the firm may adopt (or think he is adopting) the same genial tone on paper.

But the letter read, without the accompaniment of a playful nudge or a twinkling eye, may strike the reader with all the stunning force of a charge of swindling.

A commercial correspondent, whether he learns human nature by salesmanship or by social intercourse, should be on the look out for the work of the unskilful letter-writer.

It is an exceedingly difficult thing for many persons to express themselves at all on paper, and when they confuse the issue by attempts at irony, satire, or even innocent and playful asides, the reader of the epistle may gain an entirely erroneous view of the intention.

Some of the hard language of letters, however, is intended and conveys not merely the slashing thrust but the salt to rub into the wound. A man writes in a moment of heat, though possibly an hour later he has not only cooled down but possibly forgotten that he had put the case quite as fiercely as he had really done.

A commercial correspondent has one unfailing armour against such assaults: courtesy. Even if his imagination is not always good enough to realize excuses or explanations, he will rarely err if he keeps rigidly to courteous terms.

It may be necessary at times to register a protest against what appears to be a reckless charge, but where this is done in the spirit of courtesy little harm can result.

The above paragraphs may appear to labour the case, but, where there is a strong personal relationship between a firm and its customers, the letter from head office carries much more weight, for good or ill, than is often supposed.

The chief traveller spoke to the head of the firm about the new partner.

"I don't mind his closing accounts with his letters as fast as I open them with my talk," he said. "But recently he has been gaining on me and it makes me anxious."

This was a state of things the senior partner soon set about to correct.

Clearness

It is fortunate that so much business correspondence deals with compact definite issues that short, tersely worded sentences can be used for most vital subjects. The language of diplomacy, although certainly part of business correspondence, need never be very involved language. This is chiefly because really important decisions are generally formed during interviews.

Where a correspondent is not very fortunate in compacting his words into sentences, he should get over the difficulty by making those sentences very short and as far as possible independent of each other.

If he feels that a bunch of sentences of a few words each, separated by full stops, gives a rather jerky look to the letter, a good way of balancing this defect is to plan out a rather longer opening sentence of greeting, and a smoothly running closing sentence of thanks, and use one or both of them for all letters to which they apply.

Legibility

In these days of typewriters nearly all letters are legible. But unfortunately signatures are not. In cases where "all replies are to be addressed to the firm and not to individuals" this may not matter very much. But nowadays some firms make a speciality of personality and encourage their correspondence officials to become known by name.

Where the name of such an official is not printed upon the letter form, and there is the remotest chance of it being mis-read, it is a rule to have words typed in at the head of the page, such as "Dictated by Mr. R. J. Deakin."

Legibility applies to mechanical means. The frayed and worn out ribbon, the ancient typewriter, the apologetic carbon copy and ink-choked types are not helpful to business.

The endeavour to get too many manifold letters from the same stencil is false economy, and wastes postage stamps.

Aptness or Appropriateness

For a Cardiff firm of colliery owners to quote prices to Newcastle coal merchants may, at times, be quite sound business, but the probabilities are against it. The offer of half a cargo of damaged currants to a grocer whose Christmas order for dried fruit never exceeds £10 would also be inapt.

In a great deal of modern business the man in the office has little knowledge of customers beyond what his books show him. But to the alert mind these reveal very much, and keep a check on many obvious errors.

"Always look at a customer's Ledger Account before you write him a letter" advises one merchant. The advice is sensible, for though such a record does not reveal everything it gives an outline history of the transactions of the past.

In replying to letters some regard should be paid to their characteristics. An obviously illiterate and uninformed correspondent needs a reply that is couched in very simple and explanatory terms. It is doubtful in such a case if it is wise to use the most ordinary commercial abbreviations such as "c.i.f." or "E. & O E." It would be wiser to write out everything in full.

Human Nature

A letter can afford opportunities for little human-nature touches that change it from being a coldly formal document to a cheery message.

Very often these opportunities come in the way of inserting a few words, not perhaps strictly à propos to the matter in hand, but linking up the subject with the whole business relationship.

References to the "long series of pleasant transactions over so many years," "your continued courtesy during our ten years' business dealings with each other," and similar phrases, are indications of what is meant.

In the same way, when some subject of difficulty or dispute arises, an appreciation of past business and the fair principles on which it has always been conducted goes a long way toward soothing ruffled feelings.

It is very easy, in writing a letter from an office, to think of a customer as "an account in

the ledger," and to forget that behind that record is a person or a group of persons.

The editor of a certain popular weekly paper sometimes invites readers to send him their photographs.

"It is surprising how it helps one to take out a bunch of twenty or thirty of these" he explains, "especially when I am writing my editorial page. It may not always help me to know what to put in, but it certainly helps me to know what to leave out."

To have the power of visualizing the person one writes to does very much toward helping one to give the human touch to a letter.

Travellers

Correspondence between the firm and its travellers is an important theme. Recently a large business employing a great many travellers has been developing at a highly satisfactory rate, and the managing director attributes the improvement almost entirely to a new policy in writing to travellers.

A correspondent, especially gifted in the work, writes personal and cheery letters to them, mostly congratulatory on things done and incidentally referring to yet better deeds to be accomplished.

The letters don't take liberties with facts. If a man is not pulling his weight he is allowed to know it, though not as a charge of incompetence, but as an encouragement to put in the necessary effort to effect a change.

"The firm is watching you. It wants to be proud of you" is a more successful way of getting the best out of a man than the blank charge of incompetence or of idleness that disheartens and belittles him.

Letter Heads

Having dealt with the contents of a letter, the actual presentation should be considered.

Letters should be typed on good paper with a well-printed heading. This should not be crowded with unnecessary matter, in spite of its apparent value for advertising purposes. In addition to the name and address of the firm it is useful to print telegraphic address and telephone number.

When a business is not a limited company the individual names of the proprietors must appear unless they are sufficiently indicated in the name of the firm or trader.

Some firms unwisely use the back of the letter form for advertising purposes. This is a very

dangerous custom, as it can easily lead to the letter being overlooked.

Outward Correspondence

The Correspondence Outwards, except routine communications, should be carefully watched by the manager or other responsible person, to see that no letter lowers the dignity of the firm, or makes any change in its avowed policy. To facilitate this, copies of the correspondence are often taken and put before him each day.

Although members of the staff may be allowed to dictate letters concerning their particular work, only heads of departments are usually authorized to sign them. This gives the head of the department an opportunity to stop any letter which might give offence to a customer, or which might be at variance with the known policy and practice of the firm.

An inexperienced junior might easily use words and phrases which would produce strained relations between the firm and its customers or those from whom it obtains its supplies.

The letters sent out by a firm should create a favourable impression. The typewritten letters should be uniform in lay-out and style.

Business letters usually contain, in a reference space, the initials of the person who dictated the letter and of the typist who typed the letter; this fixes responsibility for the communication.

In some firms, the typists are all together in one room, while, in other firms, each department may have its own typist or typists. In the case of the former, "pool" typing as it is often called, a senior or chief typist distributes the routine work, sends typists to the departments to take down letters, and supervises generally.

When typing a letter, the typist usually types also the envelope in which it is to be sent. The office boy (or girl) has then only to copy the letter and place it in its proper envelope.

Where enclosures are to accompany a letter, a note should be made at the foot of the letter, thus: 1 Encl., or 2 Encls., as the case may be; this prevents the enclosure being forgotten.

Letters should be signed as early as possible, as when they are left to the last moment the post is done with a rush. Consequently, letters get put in the wrong envelopes, or enclosures are forgotten, or letters are not weighed, and may therefore be sent out insufficiently stamped.

Business transacted at interviews, or over the telephone, should be subsequently confirmed by letter. Telegrams should also be confirmed by letter on the same day.

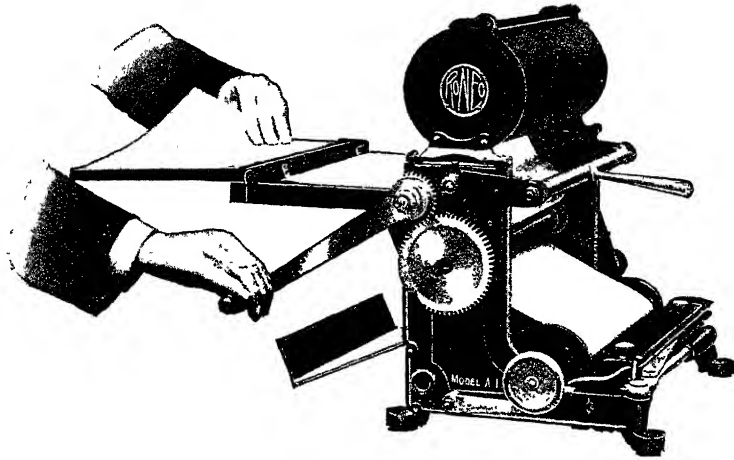
Keeping Copies

In all businesses one copy at least of every communication sent out should be made. Sometimes three or four copies are necessary. Letters are often copied into letter books consisting of thin sheets of either white tissue or buff, Japanese silk paper. Copies are taken by means of damp, rubber pads and a copying-press. Each morning, the letters are indexed in alphabetical order, and on each letter a cross reference is made to other letters to the same person or firm; the top reference number denotes the page of the last previous letter, and the bottom refer-

Letter Copiers

In addition to the press-copy and the carbon-copy methods of taking impressions of letters, there is also the modern method of the rotary letter copier. The copies are made on a continuous roll of paper which is saturated with a chemical copying solution. In some copiers, moisture is obtained by the paper passing through a shallow bath of water; in other copiers, glycerine is an ingredient in the solution, in order that the latter may retain its moisture.

The paper and letters are fed through the machine, and a turn of the handle makes an



RONEO LETTER COPIER

ence number the page of the next subsequent letter.

Where press-copying is not in use, a carbon copy is taken as each letter is typed. This carbon copy is kept for reference, and is attached to, and filed with, the letter to which it is a reply.

It is doubtful, however, whether carbon copies would be accepted as conclusive "evidence" in a court of law, as they are taken before the letters are signed, and alterations are frequently made in letters before signing takes place. Loose-leaf copies of correspondence can also be very easily lost or mislaid.

In some firms, therefore, letters not only have carbon copies taken of them for filing, but are press-copied as well; the latter is a precaution in case the letters should have to be produced in court in support of, or defence to, an action at law.

impression of the letter on the sensitized paper. The paper is automatically cut to any required size by the machine itself.

This system furnishes a loose-leaf record of the letters sent out. The copies of the letters can be filed with the original correspondence, or separately; or they can, by means of patent binders, be held securely together in book form like an ordinary bound press-copy letter book.

The great advantage of this method of copying is, of course, speed in the case of a very large outgoing mail. Another advantage is that the copy contains the signature of the writer, and also any pen alterations that he may have made in the typed original.

The illustration shows one of the best known rotary models, the Roneo Letter Copier. The advantages claimed for this machine by the makers are: "No brushes, no wet rags, no damping baths, no smutty carbons, no blurring,

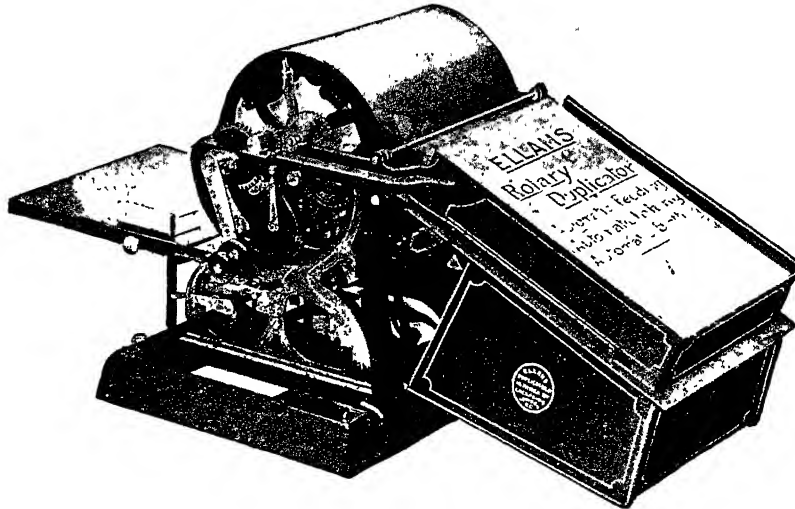
no creasing, ten times better copies in one-tenth of the time."

Duplicating Machines

Carbon copying is mostly used for making one or two copies of any letter or document, but when many copies are required, some better method must be adopted. A sheet of carbon paper is placed underneath the paper on which

the copies. The latest machines are self-inking, self-feeding, self-blotting, and may be worked either by hand or by an electric motor.

These rotary duplicators have, in all but very small offices, displaced the gelatine copiers, hectographs, mimeographs, etc. "Duplicator" is a singularly inappropriate term to use. The machines make more than a "double" or "twofold" copy; they are, in fact, multi-



ELLAMS DUPLICATOR

one is going to write; and by writing with a hard pencil, a facsimile is left on the paper beneath the sheet of carbon. By this means, exact copies are made of receipts, orders, telegrams, and invoices.

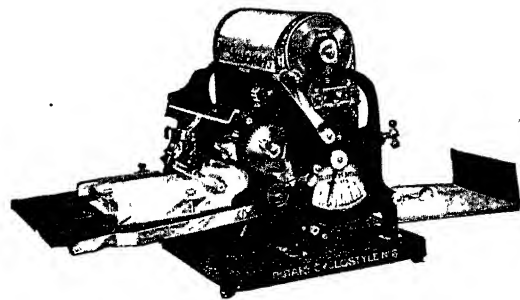
Carbon copies of letters and documents can also be produced by the typewriter. By using thin paper and thin sheets of carbon, and by striking the keys a little harder, several copies may be produced at the same time.

When numerous copies are required, as in circularizing, special duplicating machines must be used. The latest and best are the rotary machines.

A stencil is cut by the typewriter on a sheet of specially-prepared material. The ribbon must, of course, be disconnected. This wax, or rubber stencil is then fixed on the inked drum or rollers of the duplicator. One turn of the handle passes a sheet of paper round the drum or rollers and produces a complete copy, the ink being pressed through the type perforations in the stencil. Special absorbent paper can be obtained, which does away with the necessity of blotting

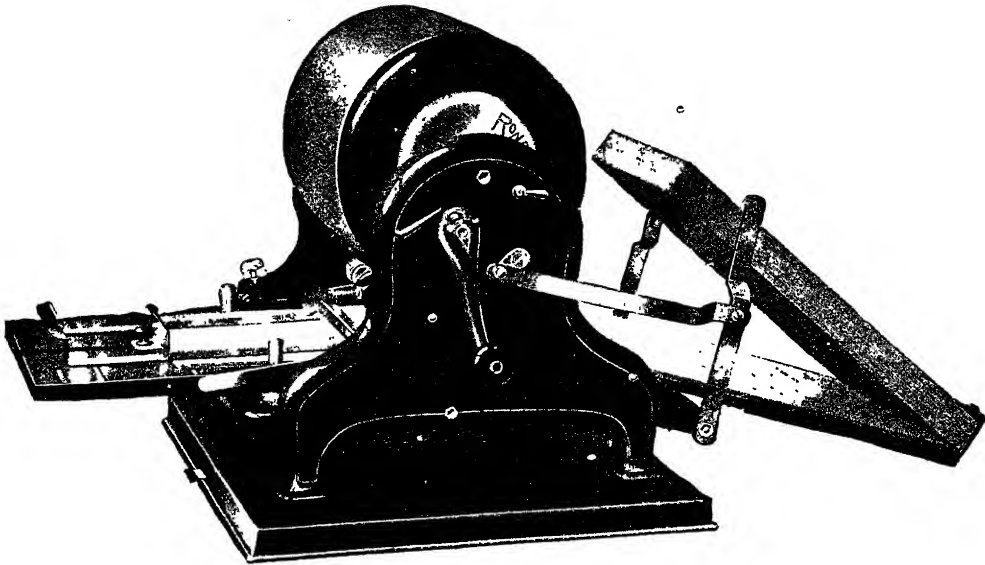
plicators or multicopiers. Some of the best-known machines are the Gestetner, the Roneo, and Ellams.

Where, however, the number of copies of a letter or circular is almost large enough to justify its being printed, some businesses make

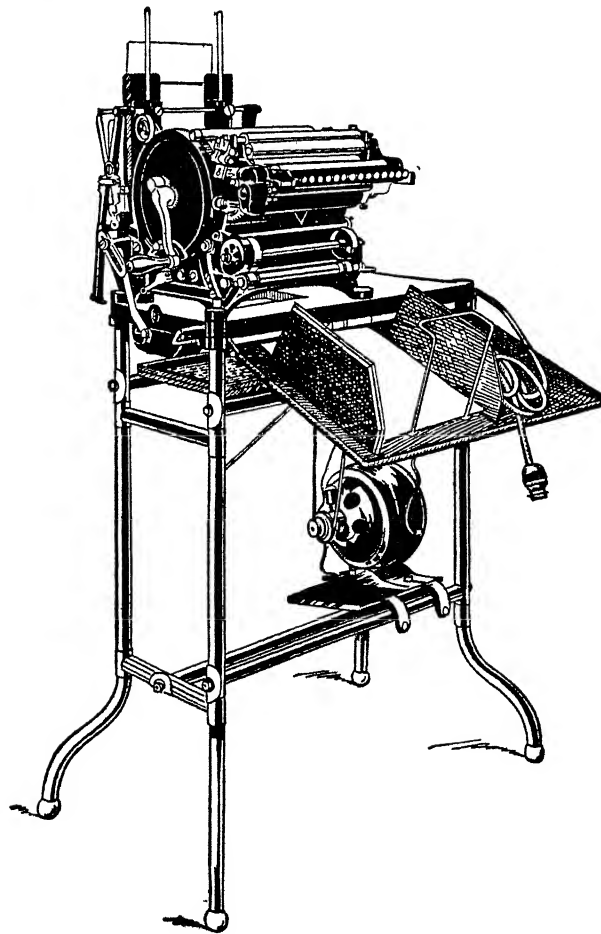


GESTETNER DUPLICATOR

use of a type-setting machine or office printer. In these machines each separate letter is placed in a groove on a metal drum until the whole letter is composed. A broad inked ribbon is



RONEO SELF-INKING, SELF-FEEDING, SELF-BLOTTING DUPLICATOR

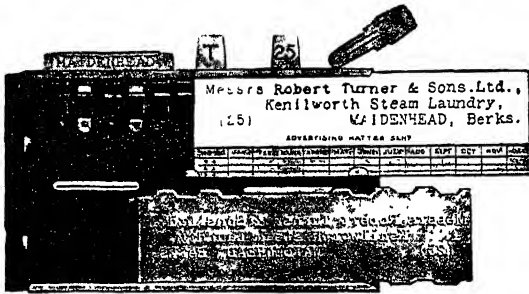


then attached over the type which, when the drum is revolved, prints on to the paper placed underneath. Most of these machines are electrically driven, and also have a counting device to prevent over-production. Such a machine is the Gammeter Multigraph.

Addressing Machines

In many businesses, it is necessary to keep writing the same name and address over and over again.

Such businesses are those of merchants and manufacturers, who constantly issue catalogues, price-lists, and advertising circulars to their customers, joint-stock companies, which issue dividend warrants and company notices to their shareholders; stock-brokers, who send out



AN ADDRESSOGRAPH CARD INDEX ADDRESS PLATE

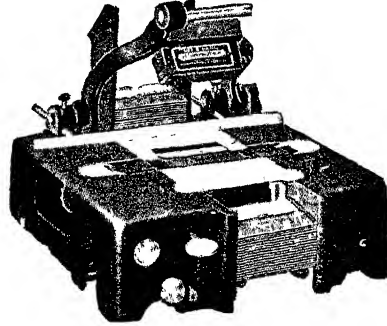
investment lists to their regular clients; insurance companies, which send out premium renewal notices to policy-holders; newspaper offices, which require addressed wrappers for sending out newspapers to subscribers; shipping offices, which issue lists of sailings to their customers; clubs and societies, for sending out notices of meetings to their members.

To facilitate such work, machines like the Addressograph have been invented. The addressing unit is a zinc plate embossed with the name and address required, and a printed impression of such name and address on an index card, both being kept together in a metal frame. The cards form a unique index and facilitate the location of individual address plates, also classifying them by their different colours.

The plates are stored in steel trays or drawers and arranged like a card index—alphabetically, numerically, geographically, etc. When the plates are required for addressing or other purposes, a whole drawerful is tipped into the hopper and the empty drawer placed in a holder

beneath the printing point of the machine. The machine is fed with envelopes or other matter to be addressed, and as the plates pass the printing point they are automatically re-filed in the tray in the same order as before.

By means of an ingenious device, known as the Automatic Selector, the machine will automatically print what addresses are required and



A HAND ADDRESSOGRAPH



ELECTRIC OPERATED ADDRESSOGRAPH

pass over those that are not wanted, the address plates being maintained in their original sequence.

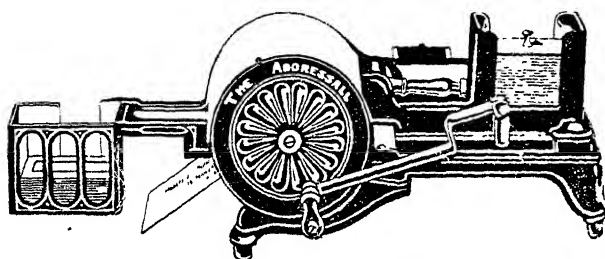
The machine is used extensively for writing employees' names and numbers and other details on wages sheets, pay envelopes, clock cards, etc., and also for handling all the name writing in connection with the payment of dividends, as well as for addressing monthly accounts, labels, etc.

The hand-operated models of the Addressograph are almost as efficient as the electric models, the chief difference being in the output, though, of course, it is not possible to incorporate the Automatic Selector, yet it has recently been found possible to add a "Bell Signal," which nearly approximates that wonderful device.

Practically all models of the Addressograph since 1914 have been constructed to print through a ribbon, and the impression obtained is hardly distinguishable from good typescript.

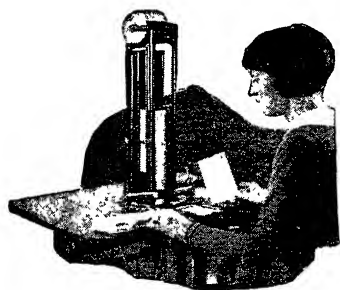
The working of the machine is so simple that any youth or girl of ordinary common sense can soon learn to handle it efficiently.

According to the style of machine used it will address envelopes, wrappers, or other matter at a speed of 800 to 10,000 per hour.



HAND-OPERATED ADDRESSALL

In other machines, such as the Addressall, the names and addresses are cut in stencils on the ordinary office typewriter, and then placed in a machine for printing on envelopes or wrappers. There are models, hand and foot operated and electrically driven, to suit



ELECTRICALLY-DRIVEN ADDRESSALL

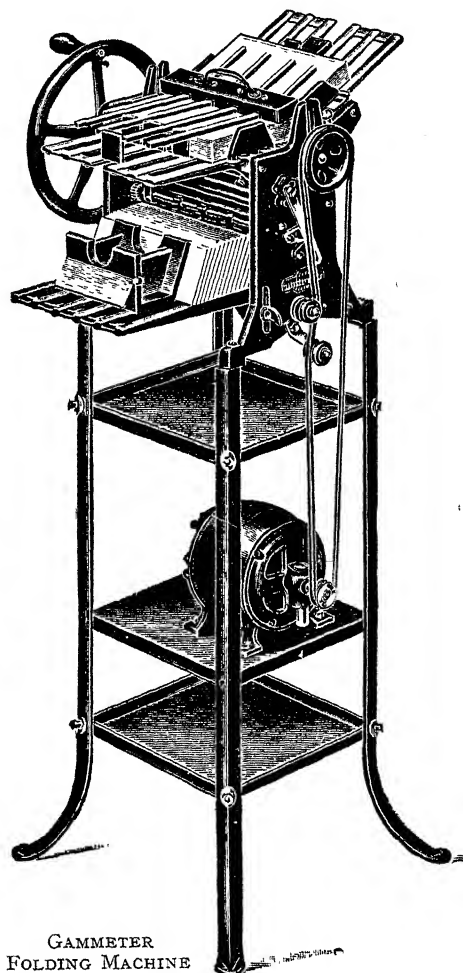
both small and large businesses. They have a range of work similar to the other addressing machine. The Addressall gives a complete service in the counting house, in the secretary's office, in the sales department, in the wages office, in the shipping office, and in the mailing room.

The Addressall electric machines, models D and G, apart from ordinary addressing work, are used for filling in wage sheets, pay-rolls, dividend warrants, company returns, etc. The machines are also regularly furnished for duplicating, skipping, repeating, and proofing.

The model K electric machine is also equipped with a wrapper cutting device. Wrappers are automatically cut from a continuous roll of paper to any desired size, and printed with names and addresses at a speed of 8000 to 10,000 per hour.

In a business with a large correspondence

office, there would probably be a smaller or sub-office to deal with the more or less mechanical operations of folding, sealing, and stamping. This office might be called the "Postal Section," and would have a number of machines to cope with the necessarily large number of letters and circulars sent out.



GAMMETT
FOLDING MACHINE

Postal Machines

The postal machines are of various descriptions, and are used for many different purposes. They are, therefore, dealt with separately under the headings of Folding Machines, Envelope Sealers, and Stamping Machines.

Folding Machines

Where the outgoing mail is very large, the need of a mechanical folder will be obvious.

To fold a considerable number of letters, or letters and enclosures, or circulars, or a quantity of advertising literature takes up a lot of time and requires several hands. The employment of a folding machine will, therefore, effect a great saving of time and labour. It will also speed up the day's mail.

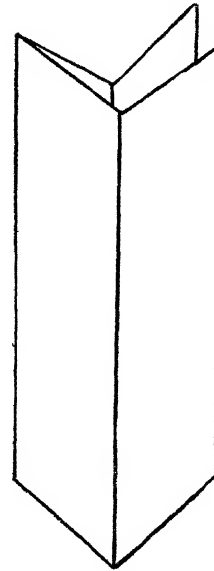
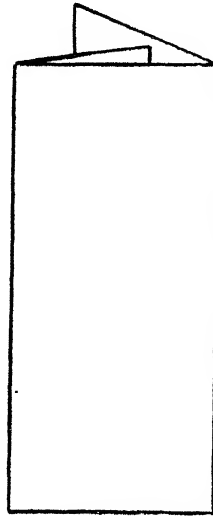
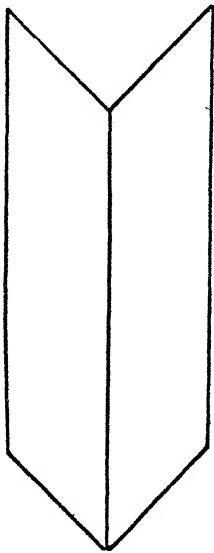
The Gammeter Multigraph Junior Folder is an electrically-driven and automatically-fed

"Putting Up" Letters

In folding letters and enclosing them in their envelopes care must be taken to ensure that the right letter is enclosed in each case.

This is important also where circular letters are sent out if the names and addresses have been "matched in."

"Matching in" consists in producing a letter by passing it through two machines. The first,



FOLD	SINGLE	LEGAL	DOUBLE PARALLEL
SIZE OF PAPER } Max. 9 × 14 in. reduced to 9 × 7 in. Min. 2½ × 5 in. reduced to 2½ × 2½ in.	9 × 7 in. reduced to 9 × 3½ in. 2½ × 4½ in. reduced to 2½ × 1½ in.	9 × 7 in. reduced to 9 × 3½ in. 2½ × 4½ in. reduced to 2½ × 1½ in.	9 × 14 in. reduced to 2 × 3½ in. 2½ × 5 in. reduced to 2½ × 1½ in.

folding machine. It will handle a very wide range of work in various weights and grades of paper—as much as is likely to be required in an average office. It feeds, folds, stacks, and counts at a speed of 6,000 per hour, and does approximately the work of six assistants. The machine folding is far superior to hand folding, which is often careless and inexact. The folding which the Gammeter will perform comprises single letter fold, double parallel fold, accordion fold, and three fold. For three fold, however, it must be fed through the machine twice. The circulars are placed on the feeding ledge of the machine, and by a turn of the handle, or revolution of the machine, are folded as required. The machine can be either hand operated or electrically driven. The illustrations show not only the machine but also some specimens of folding.

the duplicator, which has been described, makes hundreds of copies of the same letter. The second is an ordinary typing machine.

When all the letters have been passed through the duplicator they are passed on to a typing clerk who types the names and addresses of the persons to whom they are to be sent.

The advantage is that a circular is "individualized," and Mr. Smith of Wednesbury gets a letter that begins "Dear Mr. Smith," and has also "Mr. Harold Smith, 279 Gleneagle Street, Wednesbury" at the top or bottom of the page.

This is called "matching in."

This double printing necessitates careful work when the letters are placed in the envelope, particularly if the letter and the envelope come from different persons working the different machines, as it will not do for Mr. Smith of

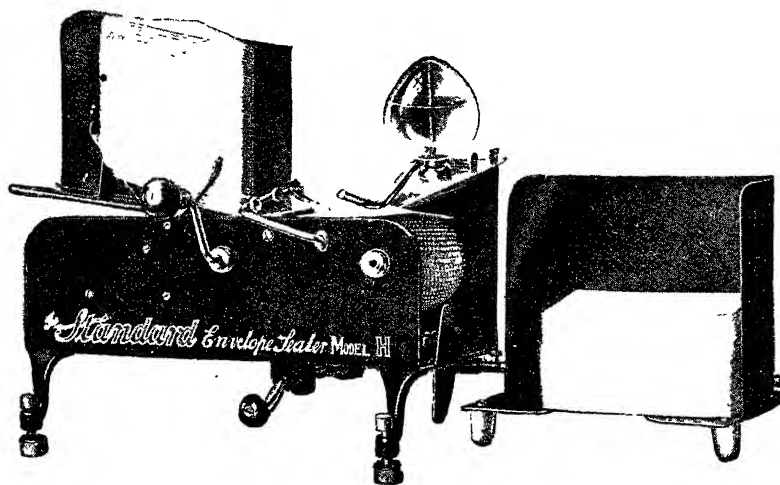
Wednesbury to be addressed as "Dear Mr. Rawlings" and to find that his letter is headed "Mr. Stanley Rawlings, Market Cross, Coventry."

A rather awkward accident occurred recently in one office through the junior, who was enclosing circulars, acting a little too cleverly and trying to simplify his task.

He folded all the letters and, as they were in exactly the same order of names and addresses, he placed them in a long holder and taking up

Where numerous envelopes have to be sealed, they are generally laid out in rows, the gummed flaps moistened with a damp brush, and the envelopes then closed. This is, of course, a quicker method but not fast enough, and consequently there has resulted the invention of an envelope sealing machine.

In the Standard Envelope Sealer, the necessary moisture is supplied by a small metal roller revolving in a bath of water.



STANDARD ENVELOPE SEALER

the first letter and the first envelope proceeded right through the pile.

But unfortunately, a clerk had taken out one of the envelopes near the top, to correct a mistake, and not knowing where it came from, had slipped it in at the bottom of the whole pile.

The result was the right letter failed to reach the right envelope down through the pile, and nearly two hundred customers received letters meant for some one else.

Some people knew it was a circular, but others thought an important letter might have gone astray, and consequently there was a great deal of time wasted on unnecessary correspondence.

Envelope Sealers

The next step in the work of getting the mail off is the act of sealing, and it can be seen that the usual method of sealing an envelope, by licking the gummed flap and then pressing it down firmly, in order that it may adhere to the envelope and thus fasten it, would be far too slow.

The pile of envelopes is placed on an inclined hopper, and fed automatically across this roller to be sealed. The flaps are raised and moistened, and the envelope conveyed into a second hopper, where the weight of succeeding envelopes furnishes the requisite pressure to make the sealing effective.

This envelope sealer can be adjusted to take envelopes of varying size, but one size at a time. Its operation is silent, speedy, and entirely automatic, and the output is limited only by the speed at which the handle is turned. According to the makers' statement, "it will moisten, seal, and stack the mail at the rate of 200 letters a minute."

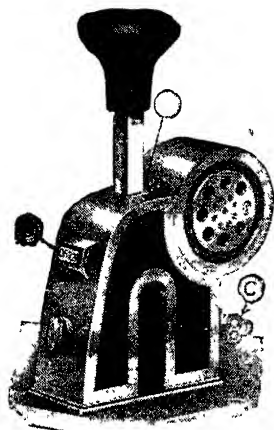
Envelope Stampers

The final step in the mailing process is the act of affixing the stamp.

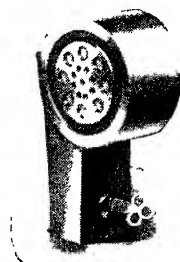
Where a large number of circulars have to be posted, the labour of sticking on the necessary stamps may be avoided by prepaying the postage in money, and leaving the circulars to be stamped

"Paid" by the post office. This stamp, however, tells the recipient that the communication is a circular, and may lead to its being thrown unopened into the waste-paper basket. Further, the postal packets must be chargeable with a uniform rate of postage, and must be tied up in bundles of 60; while the total amount of postage prepaid must not be less than £1.

It is possible for firms which make large use of the post to open a deposit account at the head office where the letters are to be posted, and by depositing an amount equal to the postage for a week, or month, or other convenient period, and agreeing to pay at the end of such period the amount of postage due, to be relieved



MULTIPOST STAMP
AFFIXER



MULTIPOST STAMP
CASE

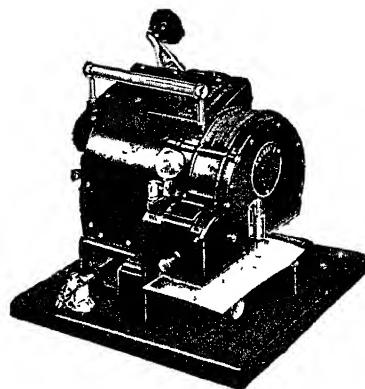
not only of the trouble of affixing stamps, but also of the necessity of prepaying postage in money.

It is also possible to obtain stamp-affixing machines by means of which stamps of any denomination can be affixed to postal packets. The machine can be locked to prevent improper or unauthorized use; it also registers on a dial the amount of postage used. The stamps are supplied by the post office in rolls of 480.

Machine stamping is a much quicker and more hygienic method of affixing stamps than the licking process. It also does away with the temptation to pilfer stamps. Firms have had to guard against this practice by having the stamps perforated with their initials, a proceeding authorized by the post office regulations.

One of the best-known stamp-affixing machines is the Multipost Stamp Affixer, S.R. Model (Merkham Trading Co.). One depression

of the plunger issues the stamp, cuts it off the roll, moistens it, affixes it to the envelope, and records the issue on a numerical indicator (D) at the side of the machine. The machine stops counting when the stamps in the roll are exhausted. (C) shows the key with which the



UNIVERSAL POSTAL FRANKER

machine is locked. (B) is a simple device by means of which the plunger can be locked down and put out of use if necessary.

The stamp-affixing machine is just as suitable for a business with a small post as for one with a very large post. It does away with the licking and sponging of stamps, and keeps all the stamps under lock and key.

In businesses where stamps of different denominations ($\frac{1}{2}$ d., 1d., $1\frac{1}{2}$ d., and other prices) are required, extra stamp cases can be provided,



INDICIA (UNIVERSAL)

one for each denomination. These stamp cases take off quickly and fit in quickly into the same Multipost.

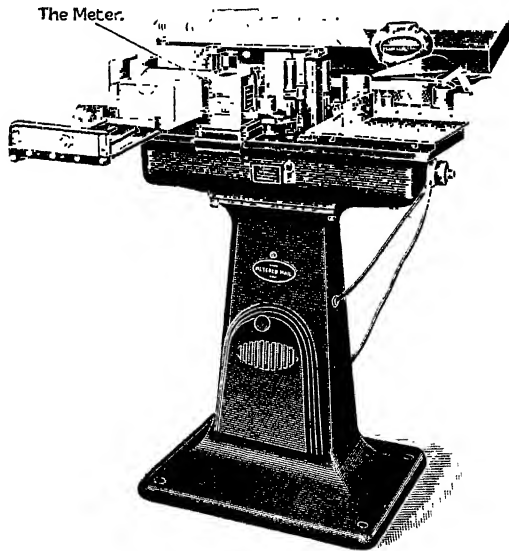
Postal Frankers

One of the latest devices, however, is the postal franker. These machines are manufactured and sold under licence from the Postmaster-General, and, in the words of the makers, "abolish stamps, pilfering, and loss, do away with the postage book, and reduce postage accounting to one daily reading of a recording meter."

Where, however, a postage book must be kept, the machine acts as an effective check.

The "Midget" Universal Postal Franker is suitable for a mail averaging 50 letters a day or over. It is hand worked, and prints any frank value required between a $\frac{1}{2}$ d. and 1s., with postmark and date. The speed is 1,000 to 3,000 per hour. It is a self-contained machine registering on one meter in units.

On payment of the necessary amount, the post office will set the meter. The suppliers,



PITNEY-BOWES POSTAGE METER MACHINE,
SHOWING METER IN POSITION

Universal Postal Frankers, Ltd., arrange everything with the postal authorities, including the issue of a free P.O. licence and the hire of the printing dies at a nominal fee of 1s. per annum.

Larger models can be obtained to deal with a heavier mail. Machines are made either to be hand operated or to be electrically driven. The latest models are also envelope sealers.

The Pitney-Bowes Postage Meter Machine, authorized by the Postmaster-General, is a similar labour-saving device. Meters covering any denomination of postage can be used on the machine.

A meter which controls the stamp account is set by an authorized post office official for the number of impressions which are purchased by the user. The meter can only be utilized and postage registered when it is operated by the machine.

The machine places an impression on the envelope, which is a combination of the stamp and post mark—mail thus stamped eliminates facing and cancelling operations in the post sorting office, and is therefore expedited. All models with actual speeds of from 120 to 300 pieces of mail per minute are automatic in action, and combine the processes of sealing and stamping in one operation. To quote the words of the manufacturers: "It feeds, separates, seals, stamps, and stacks the mail in one operation."

Inward Correspondence

Dealing with the Correspondence Inwards forms a very important part of the work of most offices.

Provision must be made for rapid handling of this, which is usually heaviest by the morning mail, as otherwise departments may be kept waiting for work.

The letters and telegrams are usually opened by a partner, director, manager, or confidential secretary, as it is important that some very responsible person shall be able to know at once about complaints and vital subjects as soon as they arise.

Where money is received in the form of Postal Orders, special care should be taken.

Mail order firms usually make special arrangements for the immediate separation of the money from the letter enclosing it, although the amount is carefully marked upon that letter.

Where letters containing money arrive in large numbers, and necessitate attention by more than one person they should be opened at a table where such workers face each other.

As each letter is opened, the contents are impressed with a rubber dating stamp; in some firms, automatic time and date stamps are used. The stamp generally provides a space for the amount of any remittance enclosed in the letter to be duly noted. In small businesses, where the incoming mail is not a large one, a record is kept of all letters inwards, the person who opens the letters dictating entries to a junior clerk.

The keeping of a Letters Received Book, however, entails a lot of time and labour; and many firms, who do not see sufficient justification for it, have not adopted it.

Envelope Openers

When a large mail has to be dealt with, the process of slitting or cutting open the envelopes is a very tedious and slow one. Machines have

been invented to deal with the matter. Owing, however, to the varying size of business envelopes, it is difficult to make a mechanical device which shall be suitable for all kinds.

The machines are of simple construction, and are equally simple to work. The turning of a handle feeds the letters from the bottom of the bundle, one by one, into contact with a revolving circular knife which cuts off the extreme edge of one side of the envelope, thus allowing the enclosures to be withdrawn.

The great danger, of course, is the possibility of mutilating a cheque, postal order, or other valuable document that may be enclosed.

Sorting the Letters

As the letters are opened, they are usually sorted, and routine communications placed in the appropriate letter-trays or baskets for distribution to the departments or sections concerned.

Thus, orders will be sent to the sales department; invoices and advice notes, to the buying department; statements and book-keeping queries, to the accounting department; complaints re shortage and damage, to the packing and forwarding department; reports from travellers, to the manager; share transfers, to the secretarial department.

Complaints should be carefully and tactfully dealt with, in order to prevent custom being lost. Genuine mistakes will, of course, happen, but carelessness in the execution of a customer's order should be visited upon the assistant responsible.

A first mistake will generally be overlooked by a customer, but a repetition may lead to the transference of his custom elsewhere.

Letters and papers should not be allowed to lie by and accumulate, but should be placed in a basket or tray for filing as soon as they have been dealt with. A good filing system should also obviate any necessity for hoarding correspondence on the plea that it may be required again shortly. A "memory tickler" should be used in the form of a note in the office diary on the date when the correspondence is required again.

Filing and Indexing Systems

When the German tutor in H. G. Wells's novel declared that the British lack the indexing habit, he may have spoken a profound truth; but had he said that they lack the indexing endeavour, he would have mis-stated the case sadly.

The modern British business office simply bristles with indexes and filing cabinets, many of them obviously in evidence for something more than furnishing effect.

The need for keeping documents in an orderly and convenient manner, and so arranged that they can be found almost instantaneously, has been realized in business ever since offices and counting houses came into existence.

As all the useful systems of filing are still comparatively simple it is no surprise to us to realize that in the broad principles of method very few changes have taken place for a very long time.

But great improvements have been made and are being made, in the mechanism of filing. The "all-steel" office is a good illustration. The pleasing appearance, the easy rolling drawers, and the carefully planned arrangements of card division and support, add greatly to the comfort and ease of dealing with documents.

Some time ago the representative of one of the most progressive and up-to-date firms of filing-cabinet makers called upon the proprietor of a large city business, which was reported to be rather conservative in its methods (but was still esteemed to be quite sufficiently up to date, for practical purposes, by its opponents).

"We use the same system as we have used for eighty years," said the proprietor, "my grandfather invented it."

The representative repressed the obvious sneer.

"Let me explain ours" he said. "It is the last word in thoroughness and simplicity."

It was duly explained.

"Now let me show mine," said the merchant.

It was shown. There was no mechanism of easy-rolling steel drawers it is true, but much of the cabinet-made furniture of the past is still excellent.

The two systems were practically identical.

And what wonder?

Practically all methods of filing documents were discovered as soon as the need for them arose, and the houses that first used them find little reason for altering their plan, though they use appliances of a more modern make.

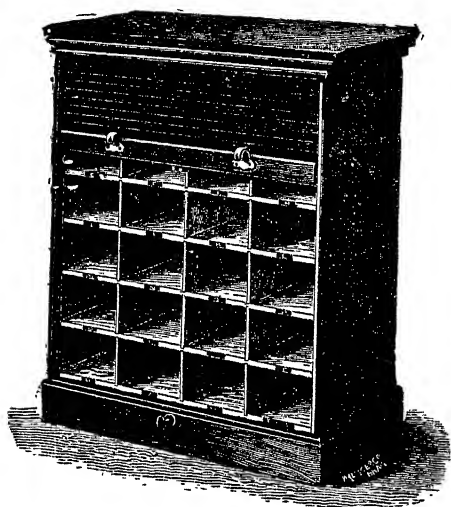
In the cellars of one of our oldest insurance companies are the files relating to their earliest cases. Those files are continuous and up to the present the method has not been changed.

It consists in keeping all the documents that relate to any one policy in the same folder. A metal fastener may have replaced a more

primitive pin, but so effective is this system that recent inquiries for a certain life policy, taken out in the early part of last century, resulted in the whole of the papers relating to it being produced in a very few seconds longer than it took a clerk to reach the cellars and return.

The Two Methods of Filing

The two chief methods of filing documents involve the question "Shall the whole correspondence be filed together, or shall letters be



"PIGEON-HOLE" CABINET

filed in one place and copies of replies be filed in another?"

In nearly all professional and semi-professional offices, or where correspondence may at any time involve professional aid being sought, it is frequently the custom to keep all the documents relating to a case or a client together, and to file the copy of letters sent attached to the letters to which they were replies.

The claims department of a railway company has its separate folder for each claim as soon as it comes to a certain point, and in this folder gradually accumulate all the letters, copies of replies, reports, and opinions until finally the claim is paid, compromised or withdrawn. Then the folder is filed away.

In business, both methods obtain, but there is a great tendency to file inward letters in a cabinet and to bind up carbon copies of replies in volumes, or keep them in numerical order, with an index for easy reference.

The Filing Apparatus

Any system of filing will, of course, need appliances or receptacles. There must be a filing apparatus. It may be merely a shelf, to hold papers tied up in bundles and labelled; or it may be a handsome filing cabinet, fitted with drawers of varying size and shape.

Uncovered papers accumulate dust, which may deface the document and render illegible the writing or printing on it. If they are wrapped, there is the loss of time in unwrapping and rewrapping whenever reference is made to them.

The cardboard box was a device formerly found in offices.

The papers were tied up in bundles, and the box was labelled outside with the nature of its contents, and the dates from and to. The box file is still in use, but it has a spring, inside, for holding papers firm, thus obviating the need for tying them. Further, the box file is made to stand upright, like a book, on a shelf, with the advantage, however, that the contents are dust-proof.

Stout cardboard covers in book form are also used for correspondence. The letter or document is first punched with a steel punch or perforator, which makes two holes at the edge of one of the sides; these holes enable it to be placed on the holder inside the file. The holder is fitted with a device which locks and unlocks, thus keeping letters safe, and at the same time allowing them to be taken off the file if necessary.

"Apron" files are used for invoices, for statements, for quotations, etc. These consist of a back and a front cover, with a spring hook or clip inside on which to fix the document. Such files are hung up on hooks or nails round the office walls. An outside label, printed in large capitals, indicates the contents of each file.

Another device is a cabinet with "pigeon holes," a separate pigeon hole being provided for each letter of the alphabet. For temporary filing purposes, pigeon holes may be useful, but as a permanent system of filing they are quite inadequate. Papers accumulate dust, and are difficult to find as they are not classified. To turn up a particular paper often necessitates searching through the contents of a pigeon hole; there is waste of time, which could be put to more profitable use. Further, the space afforded by a pigeon hole is decidedly limited.

Expanding "Bag" or "Satchel" or "Concertina" files are also used for letters and invoices, a separate section or pocket being used

for each letter of the alphabet. When not in use, the file can be closed up into a much smaller compass.

These methods of filing are very suitable where the number of letters received is not very great, but where the inward mail numbers several thousands of letters a day, more efficient methods must be used.

There are now two principal methods of filing: the "horizontal," and the "vertical."

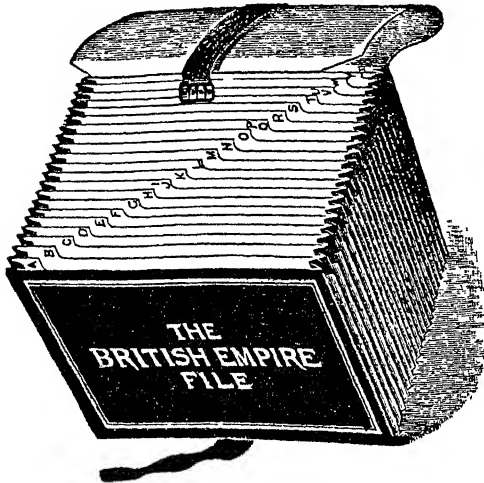
But of these, the latter is the more popular. The former is eminently suitable for the filing,

doors and locks, or with rolling shutters and locks.

Shannon Lock-Arch Filing

In the method of filing by the Shannon Lock-Arch system—

Papers are first perforated and sorted into alphabetical order by means of a letter sorter. The position in the file is then found by a glance at the index on the right of the file drawer, the papers above this position are passed backwards over the arch, the clip is opened and the paper



THE BRITISH EMPIRE FILE

with larger trays, of course, than those for letters, of maps, plans, machine drawings, and other documents of a like nature, as well as of letters.

Horizontal Filing

In the horizontal method, the papers and letters are placed flat on the top of one another on their respective trays or shelves, the contents being indicated by outside tabs or labels.

The documents are kept in their place in the tray by means of a spring which, when released, enables papers to be inserted or removed.

Letters are filed in the usual way under the initial letter of the surname, manilla pads with projecting tabs being inserted to make further subdivisions if necessary.

When the trays are full, the contents are taken out bodily and placed, just as they are, in a transfer or binding case. The back of the case is marked with the contents and their inclusive dates. The transfer cases are also numbered consecutively. The cabinets are fitted with



SHANNON LOCK-ARCH FILING CABINET

to be filed slipped over the uprights and the clip closed again.

This is the safest method of filing, as every paper is secure and it is impossible for any letter to get out of order once it is filed. Reference also is as rapid and easy as to pages in a bound book.

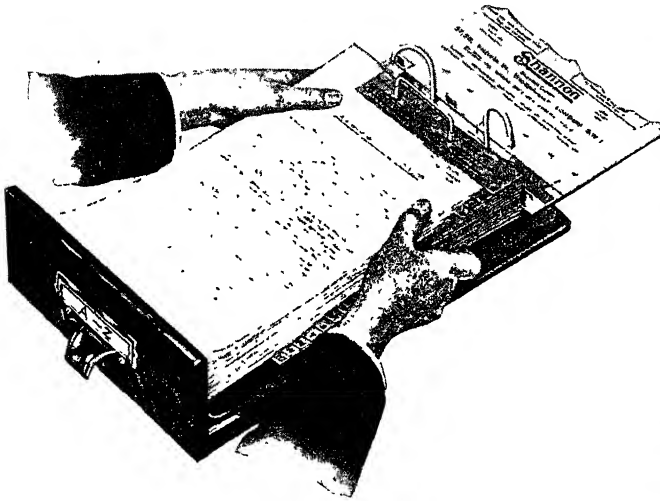
When a file drawer is full, the whole of the papers and index are transferred to a binding case, which is marked on the back with a number and its contents, while particulars of

of classification and arrangement, so that current work may be adequately supervised and controlled.

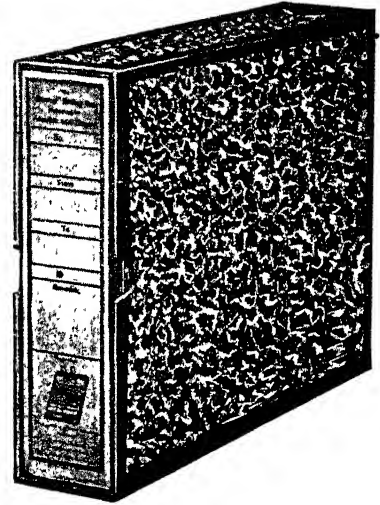
The scheme of classification should be uniform, i.e. the same for both old and current transactions, and the same for one department as for another, in order to prevent complications.

The classification may be (a) alphabetical, (b) numerical, (c) geographical, (d) according to subject-matter, (e) according to colour.

Alphabetical means classification under per-



READY TO TRANSFER (SHANNON)



SHANNON BINDING CASE

the date of transfer and the number of the binding case are entered on the compressor cover of the file. Reference to papers, even years old, is therefore as easy as to the current files. A new index is placed in the drawer when papers are transferred.

The indexing of these files depends upon the amount of the correspondence, and ranges from a simple A-Z index for a single drawer cabinet to subdivided indexes covering a hundred drawers or more.

Classification

The chief requisite is the separation of the old from current transactions. It wastes time to wade through a number of old papers when such are not required.

There must be easy access to either old or current transactions, or to both at will. To effect this, it is necessary not merely to provide the best appliances, but to organize a scheme

sons' surnames; *numerical*, under consecutive numbers; *geographical*, according to districts, as "Town," "Country," "Foreign"; *according to subject-matter*, under the name of the document, as contracts, advertisements, and trade reports; *according to colour*, principally departmental subdivisions, as blue for orders, red for purchases, white for quotations, and so on, there being separate folders for each colour.

Vertical Filing

In the "vertical" system of filing, the folders containing the letters or papers are filed in deep drawers, so that they stand upright, side by side. A separate folder is used for each person or subject. The various divisions are shown by projecting tabs, or by special guide cards.

The vertical file drawer has a much greater holding capacity than the horizontal-file tray or shelf, and hence affords a more widely-extended range of subject-matter or subdivision.

Another modern improvement in filing cabinets is the use of steel in place of wood. The vertical steel filing cabinet occupies the minimum of floor space. The drawers, being on roller bearings, pull out and shut back again most easily, and there is no danger of their tipping when pulled right out as far as they will come.

Not only so, but a fully-loaded drawer may be opened and shut innumerable times (a manufacturer's claim proved by test says 100,000



"K & J" STEEL VERTICAL FILING CABINET

times) without showing the least sign of wear and tear, thus proving the durability of the file.

Again, additional sections may be bolted up, thus providing for unlimited expansion. The cabinet is fastened with a combination lock which locks each drawer. The illustration shows a K & J Steel Vertical File, and also a specimen Folder.

Indexes

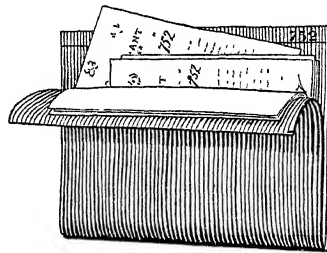
If there have been few changes or developments in methods of filing during a long period, this has been more than compensated for by the many developments in the working of indexes.

An index is now used for very many purposes and, with the aid of movable tabs and other devices, can be a most valuable auxiliary to any business.

An index is an indispensable part of any filing system. The earliest method of making a book index was probably by the alphabetical method.

It is argued that the alphabetical system is expensive, that it requires a costly outfit or a complete cabinet even at the start; whereas the numerical system, its rival, can start with a small outfit, and that further sections can be added as the drawers get filled up.

It is maintained that the making of a numbered card index is relying on the alphabetical system for the key to the numerical system of



THE "FOLDER"

filing; that initial expense can be reduced to a minimum, as cabinets are made in varying sizes.

The numerical system is said to be dependent on the alphabetical, whereas the alphabetical is quite independent of the numerical. Subdivision can be provided for by means of letters, thus *Aa, Ab, Ac; Ba, Bb; Ca, Cb*; or *aa, bb, cc*, and so on.

The alphabetical system, it is claimed, is free from complexity, because it preserves the simplicity of the order of the alphabet with which everyone has been familiar since childhood. Its outstanding merit is that it is naturally self-indexing.

The value of the numerical system, it is claimed, lies in its consecutive arrangement; for it preserves the order of the numbers with which everyone has also been familiar since childhood. Its great merit lies in the ease with which it allows of classification and subdivision, of cross-referencing and co-ordination. The greater suitability of either to any particular business or profession must be the ultimate criterion as to which is the better system.

The Alphabetic System

In this system a certain page or number of pages was left for each letter of the alphabet, and names were indexed under the initial letter of the surname, Brown under *B*, Smith under *S*, and so on.

In practice, however, this was found unsuitable for a large number of entries under each letter. There might be a large number of names beginning with *Ab*, *Ac*, and *Ad*, and these, instead of being together, were scattered about the page or pages under *A*. To obviate this, subdivisions were added for each letter following the initial letter, thus *Aa*, *Ab*, *Ac*; but this was found in many cases to make the index unnecessarily bulky.

The next step was the formation of a "vowel index." Lines are drawn vertically on each page to make six subdivisions, one for each vowel, *a*, *e*, *i*, *o*, *u*, and one for *y*. Names are indexed under the first vowel following the initial letter of the surname, thus—

A	E	I	O	U	Y	Page
Clark, G.	Cleaver, H.	Crippe, G.	Crooke, J	Chubber, T.	Clynes, F.	39 43 51 62 75 83

This arrangement makes only six subdivisions for each letter, and, of course, facilitates reference. But one has to stop and think sometimes in order to get the right subdivision under which to index a document or to turn it up from the index, as for instance, in words like Almsworth (*Ao*), and Archby (*Ay*).

It is not scientific, but only a makeshift; for where are names like *Arch*, *Epps*, and *Orrt*, to be placed?

The filing index follows the same lines as the book index, except that it is not written but made by means of thick sheets or pads placed between the different sections.

Thus, a horizontal tray or shelf-drawer containing letters A-Z would have stout manilla pads between the different letters, and projecting edges or tabs would, by means of the letter *A*, or *B*, or *C*, indicate each section or division.

Supposing a tray or drawer to be used for a single letter, say *S*, and the vowel index to be employed, then between the various letters

thick paper pads would be placed, and the letters *Sa*, *Se*, *Si*, *So*, *Su*, and *Sy* on the projecting edges or tabs of these pads would indicate the appropriate section for each lot of letters or documents.

A variation is sometimes found in this method.

In addition to the pads for making the vowel subdivisions, further pads are used with certain consonants to make subdivisions for *h*, *l*, and *r*.

Thus we find *Ch*, *Gh*, *Ph*, *Rh*, *Sh*, *Th*, *Wh*; also *Bl*, *Br*, *Cl*, *Cr*, *Dr*, *Fl*, *Fr*, *Gl*, *Gr*, *Pl*, *Pr*, *Sl*, *Tr*, *Wr*. This greatly reduces the accumulations under each vowel and facilitates quicker reference.

How we came to have the letters of the alphabet in their present order is not known; but the alphabetical method of indexing is no doubt due to the compilers of lexicons and dictionaries, these being probably the earliest books of reference.

Thus, *ca*, would be followed by words begin-

ning with *cab*, then by words with *cac*, then *cad*, and so on up to *caz* before any word beginning with *ce* appeared. The alphabetical principle is followed throughout the words; thus, *cab*, *cabal*, *cabaret*, *cabbage*, *cabin*, *cable*, and *cabman*, is the dictionary sequence. Once one gets used to it, any word can be found in the minimum of time and with the minimum of effort.

The Directory Method

A slight variation of the dictionary method of indexing is found in directories, and this is consequently known as the "directory method."

The directory has to deal not only with firms and companies, but also with different firms having the same surname. The directory method is to place the names of firms and companies before the names of individuals, and, in the case of companies, to ignore the conjunction "and," also the ampersand sign "&" for it.

A surname followed by an initial of the Christian name is placed before the same

surname followed by the Christian name in full.

Thus—

Brown, A. & Sons.
Brown, Albert & Sons.
Brown, Anthony & Co., Ltd
Brown, B. & Co.
Brown Brothers.
Brown, C. T. & Co.
Brown & Clarke.
Brown, D. & Co., Ltd.
Brown, D. A. & Co.
Brown, D. & G.
Brown & Reeves.
Brown, T. & Bilter.
Brown, T. & Co.

The prefix "The" in the names of companies is also ignored; and where the same town-name is used by many companies, the second word determines the alphabetical order, ignoring, of course, the conjunction "and." Thus—

Dover Corporation.
Dover Gas Works Company, Ltd.
Dover Pier Company, Ltd.
Dover, and South Coast Railway.

Where numerous persons have the same surname, priority is given to the *initial* of the Christian name over the *full* Christian name, thus—

Smith, A. R.
Smith, Alfred
Smith, Arthur.
Smith, F.
Smith, F. G.
Smith, F. H. T.
Smith, Frederick.
Smith, Frederick John.
Smith, Frederick William.
Smith, G. L.
Smith, G. P.
Smith, George.
Smith, George Gilbert.

For business purposes it has been found better, in such cases, to follow the "directory method" rather than the "dictionary method."

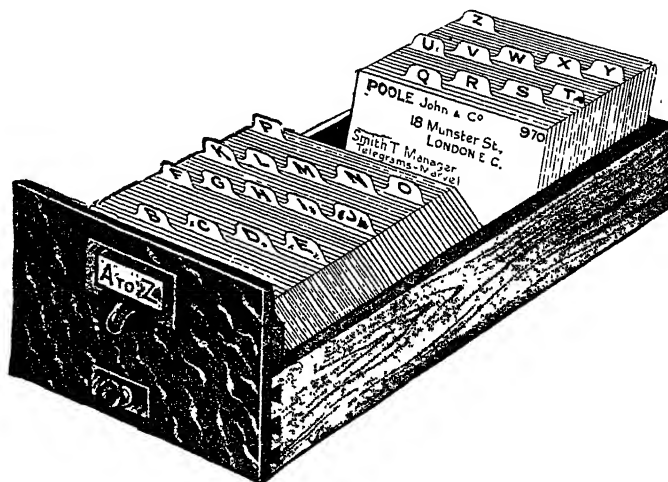
The card and vertical indexes, of course, do away with all the difficulties of the book index. They can expand or contract, as a whole or here and there, without in the least altering the original design.

It also permits of elaborate classification and minute subdivision. Documents can be so systematically filed that the arrangement, especially when in folders, can be made to serve as an excellent self-indexing method. The alphabetical system of filing has, naturally, a very large number of supporters.

The Numerical System

The numerical system of filing, the rival of the alphabetical, has a very large number of advocates.

In this system, a separate folder is provided for each person or subject. Owing to the varying size of commercial communications and documents—post card, telegram, letter, and order—some method of fastening the papers together in the folder is often thought desirable. Generally speaking, the papers are filed in the folder in order of date, the latest date being on top, as it is the one to which reference is most likely.



CARD INDEX

The first folder used will be marked 1; the second folder used will be marked 2; the third folder used will be marked 3; and so on. The folders are placed upright, side by side, in a deep drawer. The number may show plainly on a projecting edge of the folder, or it may be indicated by a guide card.

In order to find out to whom these numbers refer, a card index of correspondents or customers, in alphabetical order, must first be made, and then consulted each time.

This card index is used not only to give the file number but to furnish the full name and address of the customer, telegraphic address, telephone number, and also any other particulars that may be desired; if a firm, the names of the various partners; if a company, the names of the managing director and secretary; trade references, limit of credit, particular

line of goods dealt in ; how customer was introduced ; name of traveller who calls on him ; railway or route by which goods are to be sent ; and so on.

Such a card index is much more convenient than the old Address Book with its alterations, erasures, and additions all out of alphabetical order.

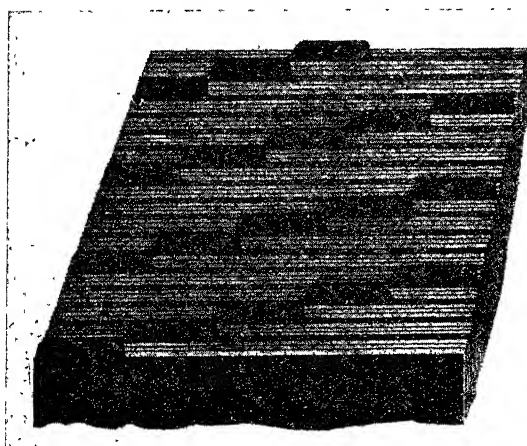
Since such card index is now usually kept for the purpose of furnishing names and addresses, there is no reason why it cannot be used as a

It does not depend on any guide-card which might get lost, nor on any card-index ; it is a key in itself.

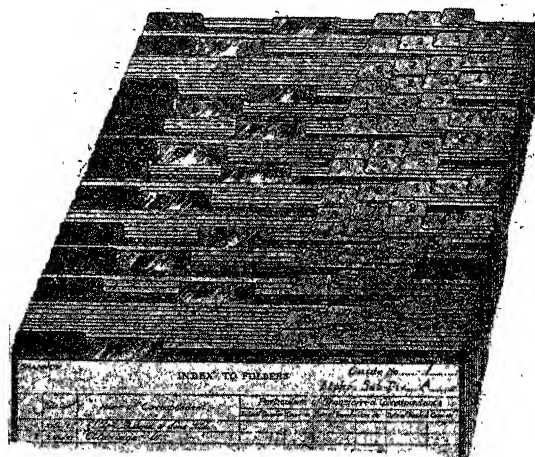
General Uses of Index

The uses of the index vary very greatly in business, and the possibilities of dividing it are so numerous that almost any contingency can be provided for.

The following shows how the index is adapted to vertical filing.



DIRECT ALPHABETICAL FILE (SHANNON)



ALPHA-NUMERICAL FILE (SHANNON)

key to file indexing by quoting the file number on it, and also be made to act as a convenient summary of useful information about each customer.

If it is not desired to file letters and documents together, classification and subdivision are easily provided for. Letters could be marked *A1*, *A2*, *A3*, and so on ; quotations could be marked *B1*, *B2*, *B3*, and so on ; orders could be marked *C1*, *C2*, *C3*, and so on ; catalogues could be marked *D1*, *D2*, *D3*, and so on. The one index-card would still serve ; it would only be necessary to record on the same card the distinguishing letters and their respective meanings. Separate drawers, however, would have to be provided and labelled *A*, *B*, *C*, *D*, respectively.

Guide cards may be used ; these project above the folders and indicate the numbers of the folders. Additional guide-cards may be used to provide for any number of subdivisions. It is claimed that the alphabetical system is simpler.

Illustrations of Vertical Filing Methods

The Direct Alphabetical System is the simplest method of vertical filing, and very suitable for small users.

The folders are filed between plain alphabetical guides.

A folder of a different colour can be used to file correspondence of a miscellaneous character.

The guides can be subdivided to suit the convenience of firms.

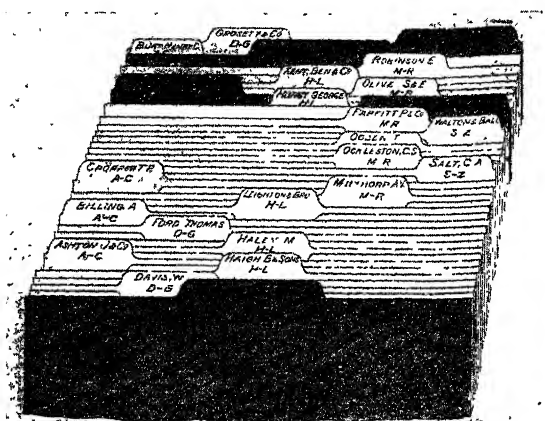
The Direct Number System is very useful where an elaborate cross index is required. In such cases, it is undoubtedly the best.

The card record is necessary as an index to the folders, which are filed in numerical order.

Steel window tab signals are used, as they are strong and allow of the number being changed if necessary.

The Alpha-Numerical System partakes of both the alphabetical and the numerical systems.

The Subject Filing System is often best carried out by means of the direct number method, as it gives the cross index which is frequently so essential. It may, however,

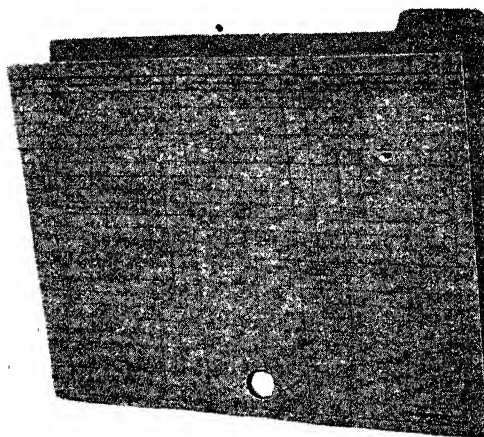


SUBJECT FILE (SHANNON)

Any letters for this folder, while it is out, will be placed in the Out Folder temporarily. When the folder is returned, these letters can then be filed in their place in their proper folder. The Out Folder is punched with a hole at the base to ensure that no letters are left inside.

Let us realize some of the simple means by which an index can be divided for different purposes.

Divisions can be made by tabs, and the



"OUT" FOLDER (SHANNON)

They decide that all names and addresses shall be "carded" and followed up by letters and ultimately, it may be, by a personal call.

In order to test the real value of the outlay, all those cards are kept in one place, but as one after another the "prospects" are changed into actual customers, the cards are transferred from the new special index, to the old mailing list.

As a final result of the campaign, 5,000 such names are thus transferred. The firm estimates that each of these cards represents a loss or cost at this stage of 5s.

But at this price 5,000 good names of actual buyers who have bought one line and may now be induced to buy others, have been added to the mailing list.

The other 15,000 are kept apart for a while, and later tried with a new offer, with the result that 2,000 more are added to the mailing list.

A third overture, with its orthodox support of follow-up letters, brings such small result that the remaining names are abandoned.

Here will be seen the advantage of this simple temporary arrangement. A large number of actual buyers has been added to a healthy, vigorously worked index. But that index has been kept free from the confusing effect of twelve or fourteen thousand names being added, when those names are mostly notes of persons who were stirred into curiosity by some rather intriguing special advertising, but who were "not of the buying sort."

Other divisions speak for themselves.

An instalment trader wishes to know what payments are due each day, and is guided by the position of the tab on the cards.

A follow-up letter writer wishes to send his letters at ten days intervals, and each day the due cards can be located by the same method.

An importer with a cargo of dried fish nearing

port wishes to have all the names of merchants who buy fish in lots of not less than a ton.

And so instances might be multiplied.

The card itself, too, can be a complete history. A firm with a mailing list of ten thousand names issues a special offer only suitable to certain buyers.

"Send the offer to all cards marked 'R' and 'W' and ignore the others" may involve the examination of every card, but the directness of the aim compensates.

The Human Element

The chief weakness of the card index lies in the human element. The greatest care should be taken to secure accuracy in filing and entering. Mistakes chiefly occur through—

1. Choosing the person with a non-index mind to do the work; and
2. Not allowing sufficient time.

Indexing should never be scamped, especially in that part in which cards are placed in position in the drawers.

As far as possible cards should be allowed to remain in their drawers, and information should be obtained without their removal from their proper place.

"Clearing the index" is a highly important task, and one in which some of the well-known retail firms seem strangely remiss.

One suburban dweller who has been in his house for ten years and whose house had been empty for over three years before his occupation, still receives monthly and season price lists addressed to the previous tenant. Though letters to the firms who send them elicit polite replies, they fail to stop the regular flow, in one case merely doubling it by bringing duplicate matter for the protesting tenant himself.

CHAPTER XI

THE COLLECTION OF ACCOUNTS

THE collection of accounts is a matter requiring tact, diplomacy, and patience. The desire is to get in the money due to the firm without offending the customer, especially where his custom is worth retaining.

Some good customers are often very slow payers, and to collect the money owing and still retain their goodwill seems often an impossible achievement.

"Terms are terms," we know; but a harsh and rigid enforcement of them is to be avoided if at all possible, especially where a firm has to compete against numerous and powerful trade rivals.

If a firm gets a reputation for harshness in collecting accounts, traders will take their business to rival firms, where they are more leniently treated.

Collection by Travellers

The custom of allowing a special discount for prompt payment has had the effect, in certain trades, of taking the collection of money out of the hands of the traveller. In others, however, the old method is retained.

There are many advantages in the salesman being also the man who collects the account, some of which should be stated here.

A more responsible type of traveller is required for the double task, and in this fact the house stands a better chance of being fairly presented to the customer.

Performing a double duty, the caller has a greater opportunity of being an all-round business man than is otherwise the case.

Customers, who have financial problems and interests as well as being buyers, are more likely to discuss business with one who has any kind of accountancy introduction than with a man who is merely a canvasser for orders.

Firms who do not realize the value of every scrap of authority, or seeming authority, with which they arm their salesmen, may think this is a purely sentimental argument. But if so, it is precisely that kind of sentiment which, in other connections, the business man is finding very important.

No part of a business should be considered by itself, but always in its relation to other parts.

The Salesmanship Value of Account Collection

And here is just a place where a naturally sound and sensible rule, unless carefully administered, may lead to the adoption of a faulty system because, in the apparently smooth way in which it works, the value of linking up all commercial actions with each other may be forgotten.

It is, for example, a perfectly sound and sensible act for a firm to allow a special discount of $1\frac{1}{4}$ or $2\frac{1}{2}$ per cent on "all amounts paid by the tenth of month following date of invoice."

What may not be as wise is the supposition that this must take all account collection out of the hands of the traveller, and that all those customers who do not pay by discount date are a class in themselves to be specially watched at the office, and are, for this very reason, rather undesirable customers.

Even where cash discounts are allowed, the traveller is sometimes given the accounts and armed with powers to collect them. The reasons are obvious.

1. The account is itself an introduction. A buyer can easily counter a salesman with "Nothing wanted to-day," but a statement of account, especially if that account is a little overdue, cannot be thus lightly disregarded.

2. A caller in presenting an account can press for its settlement in very earnest terms and yet avoid giving offence, whereas it would be exceedingly difficult to make an equally vigorous request by letter, without bringing the whole business relationship to an issue.

3. The next point is the most important of all. Many accounts have a limit of amount as to the credit that shall be given. Let us suppose that a traveller calls on a buyer with an account for £49 10s., knowing that £50 is the extent of credit which is allowed in this case. His anxiety is naturally to sell goods. He may well know that the customer is quite willing to buy up to any limit.

In consequence his chief act of salesmanship is to obtain a cheque.

There are countless cases where a commercial traveller never troubles to sell at all. His chance of doing business is by getting money.

In such a case as above if he can get a £25 cheque, he has practically sold £25 worth of goods in the very act, for when the payment has been coaxed out of the man, the order follows almost automatically.

The traveller who cannot collect cannot deal with such a buyer. The outstanding debt, over which he has no authority, may be a barrier to an order on one call journey and, before he calls again, the gradually deepening earnestness of the office collector will probably have offended the man beyond any hope of conciliation.

It may seem to be unbusinesslike that traders should not pay accounts punctually, but there are thousands of solvent and successful men who avoid sending a cheque by post.

Many of them are not limited in credit and are not short of money. They pay when someone calls for the money.

It is precisely during that period of a traveller's call, while items are being checked and the payment is being made, that the good salesman knows how to lead the conversation round to the other part of his business. He may actually take the first part of the order from the very invoices that are turned up to check the statement.

The Office as a Nerve Centre

As our real subject is "Office work" this point may seem to be foreign to the consideration, but it is introduced here because no book on office work can be complete in which the relation of the office to the other vital energies of the business is not fully and clearly presented.

Nowadays the office worker is becoming deeply impressed with the fact that he holds a key position. He realizes the office as the nervous system of the whole business, the very place in which it is most necessary that every important mainspring of action shall be thoroughly understood, even though it operates outside the office itself.

The office worker must, of course, carry out the rule of the office, wherever a rule is definitely laid down, but in those cases where there is a power of choice in the methods he can adopt, it is very useful to him to be able to use his discretion in such a way as to help the workers in other departments.

A very good illustration of this point is the disagreement with a customer. Every experienced office worker knows the kind of difficulty that sometimes arises in which it seems as if the

problem can only be settled by the firm making a concession in which its own interests are sacrificed.

Such disagreements are usually regarded in an office as unpleasant incidents, with a choice of losing money or losing an account.

Yet here is a strange fact—

The very incident that may seem to be a prelude of disaster in an office can actually be an advantage to a salesman.

A very successful traveller once said—

"I would rather go to see a buyer with the introduction of a troublesome dispute that had almost reached the quarrel stage, than have no subject, outside salesmanship, on which to treat. For it is possible to patch up a dispute, and when it is done it is easy to pass from one business theme to another. You can commence to sell because you are already behind the man's outer defences. But if you come as a salesman pure and simple, every battlement is armed, and he is ready to resist the first assault."

Travellers' reports on customers should be obtained and amended from time to time. This last point is important because the circumstances of customers are constantly changing, and the men who actually call upon them are in the best position to obtain the latest and most reliable information.

Some time ago a large and old established business came into the control of a junior partner who used his new freedom from restraint by speculations on future falls and rises in stocks and shares. The firm had always taken rather long credit, and it became noticeable that this immediately tended to lengthen, though the transactions became gradually smaller in amount. Scattered interest frequently leads to lessened turnover.

Two firms afterwards compared notes on the consequences. One, represented by a traveller who knew what was going on, and who was responsible for collecting the accounts, refused to permit the already long credit to become longer, and in consequence obtained a reduction in the amount owing, as the business shrunk in volume.

This firm escaped with a relatively small loss when inevitable disaster came.

The other firm, rather careless about length of credit as long as the limit of amount, marked in the Ledger, was not exceeded, came out of the transaction very badly indeed.

The reader will probably object that no businesslike firm will tolerate a dead account

and that length of credit. This, of course, is true, but where two firms have been doing business with each other for a very long time and long credit has been the general rule, an undue weight may be placed upon some other safeguard.

The point is that the firm's representative, whether he collects the money or not, should be looked to as an important adviser as to all changes in the financial status of his customers.

The whole subject of credit and terms is one of policy and management, and to a very large extent the duty of the man in the office is defined for him.

Problem of Slow Payers

We need not at this point dwell upon the old problem as to whether it is wise to deal with slow payers. Firms adopt varying principles, but through them all it is possible to make a few generalizations.

Firms dealing in commodities of an essential character in which the sales are continuous and the turnover heavy, usually avoid slow paying customers or refuse to allow them any extra credit.

Such articles as sugar, provisions, and flour are often sold on profits so narrow, that a single parcel becoming a bad debt would wipe out the profit made on the account through several years.

Obviously a firm doing this kind of business will not take the risk of extended credit.

"I would double my turnover at once if my firm would allow me to give an extra month or two," said a salesman for one of these lines.

But his firm would not do so, for they knew that such an action might easily bring them all the slow payers of the district, and by compelling a larger provision for bad debts put their prices out of competition.

Where, however, the profits are rather larger and the goods offered of a more general nature, the question of length of credit becomes more debatable.

"Bad debts are the smallest expense, but the biggest risk in business," said one manufacturer.

In a great deal of ordinary commerce, this is true. To be able to secure 5 per cent more in price by providing 1 per cent more for bad debts is an attractive proposition in the abstract.

In reality it can easily work out that the firm that adopts the plan will lose its prompt-paying

customers on one hand as it adds slow-paying customers on the other.

Such a firm may ride over every difficulty excepting the unexpected one. A firm applying such a plan in a colliery district, for example, and facing a coal mine stoppage, may not find that its slow payers become just a little slower, but that they suspend payment altogether.

That is the meaning of bad debts being a small expense, but a big risk.

Collection by Office

When the collection of accounts is carried out entirely from the office, the man who is responsible for this being done may have little more than routine work to do in a large proportion of the cases and during most of the time.

His real problems lie in dealing with the minority who are not good payers and become most difficult during those occasional periods when business may be passing through unusual crises.

It is doubtful if these critical occasions are necessarily slump periods, because when trade is bad, money returns to the banks and is often plentiful.

The speculative period on the crest of a boom can be more dangerous, for it is then that careless traders are tempted to launch out beyond the proper limits of their capital.

The possession of the knowledge that a customer is accustomed to receive reminders from other firms makes the task of approaching him easier.

This does not mean that he is so case-hardened that there is no need to be courteous, but it does mean that one can use a rather different range of arguments and appeal to him on his own ground. One can discuss long-credit with him as a factor in commerce in a way that a quick payer might misunderstand.

Care, however, should be taken in this respect, because there are a few quite solvent men who mostly buy from firms whose travellers collect the accounts, and who, should they buy from a firm where this custom does not obtain, are notoriously unwilling to go to the trouble of sending a cheque.

Such buyers do constitute a real difficulty and their custom is often well worth having. As solvent men they are quite likely to be offended at pressure being brought to bear upon them. In cases like these, if there is a traveller he should be allowed to carry the statement and have powers to collect.

One such case illustrates many others.

Here the buyer bought a £30 parcel of goods and for ten months not a penny was paid in spite of constant requests increasingly vigorous in tone. Yet all the while he paid every other firm weekly, monthly, or quarterly whenever the traveller called.

Even a parcel of goods delivered the day before, for which the traveller carried no statement would be paid.

In this case the buyer was not offended when final threat of law secured his payment. "But I thought a firm should collect its money," he apologized. "I will look out for your bills in future." A promise which he kept.

Monthly and Quarterly Statements of Account

The receipt of a "Statement of Account" is usually the first intimation that a certain amount of money is due to the creditor concerned. These statements are rendered monthly or quarterly, according to the nature of the business.

The following is a specimen—

STATEMENT

Telegrams: STRIPES, LONDON.
Telephone: 3475 CENTRAL

777 RUPERT STREET,
LONDON, E.C.3.
1st January, 19..

MESSRS. PIERDE & SON,
BRISTOL.

Dr. to F. PETERSON, LTD ,
MANUFACTURERS OF FANCY GOODS

Terms : 2½ per cent Discount if paid by the
10th instant.

19..				£	s	d	£	s	d
Dec. 5	To Goods						65	15	9
12	" "						53	10	11
17	" "						124	7	8
22	" "						86	3	10
30	" "						105	12	7
							435	10	9
Dec. 15	By Returns	10	3	7					
21	" Allowance	2	16	4					
							12	19	11
							£422	10	10

Where firms have also trade dealings with their customers, the statement will be in the form of a contra account, and will exhibit the balance due from one to the other. The following is a specimen—

STATEMENT

Telegrams. CEREALS, LONDON.

Telephone 4573 WESTERN.

987 WIMBORO STREET,

LONDON, S.W.4.

1st March, 19..

WALDECOTT & CALLIS

CORN, HAY, STRAW, AND SEED MERCHANTS

In Account with

MESSRS STEAPLEY & Co.,

BASINGSTOKE.

Terms: Monthly Account, Net.

19			£	s.	d.	19..			£	s.	d.
Feb 14	To Goods	54	16	10		Feb 16	By Goods	27	13	10	
21	" "	73	12	8		24	" "	32	7	5	
23	" "	39	12	6		27	" "	29	15	9	
26	" "	57	13	11		28	" Balance				
							c/d	135	18	11	
			£225	15	11			£225	15	11	
19..											
Feb 28	To Balance										
	b/d	135	18	11							

The statements are usually kept written up (or typed) day by day, and the envelopes addressed all ready. At the end of the month the statements have only to be totalled, checked with Ledger, and dispatched.

Statements should be got out promptly at the end of the month, so that customers shall not be able to give as an excuse for non-payment that the statement arrived late, and pay-day had passed. It is also educating the customer as to the firm's requirements, i.e. that the firm having given prompt attention to all orders, expect, in return, prompt payment of accounts.

Procedure of Account Collecting

The usual procedure of account collecting is as follows—

1. An invoice with the goods, with perhaps a note thereon, that if paid within so many days, such and such a discount may be deducted.

2. A Statement about the first of the month, showing the total indebtedness, with an intimation that if the account is paid by the 10th of the month, 5 or 2½ per cent discount may be deducted.

3. A second statement towards the end of the month, to which is attached one of the "coloured stickers," or account reminders, mentioned on the next page.

If all these fail, the debtor's name is then placed on the List of Overdue Accounts, to be dealt with by means of ordinary or special dunning letters.

Account Reminders

These are gummed labels for attaching to the statement. On them is a printed request for payment per return or at an early date. This saves the trouble of writing a letter.

If a similar request were written on the statement itself, it would be considered by the post office authorities as a communication in the nature of a letter, and would require a 1½d. stamp. With a printed label stuck on, the statement goes for a ½d. stamp, thus saving the extra postage. The labels are usually coloured, hence the nickname "coloured stickers."

The following are specimens—

Your early remittance will be greatly esteemed, as Account is overdue

Your immediate attention to this overdue Account will greatly oblige.

As Account is overdue, we must request a prompt remittance in settlement.

2½ per cent Discount allowed for your prompt payment of this Account

An early settlement of this overdue Account is requested.

Your prompt attention is asked to this Account, now long overdue.

Some objection is often raised to these "coloured stickers."

It is thought that, being sent in an unsealed envelope, they may come to the notice of the staff; and it is not nice for the staff to know that their employer is behind with his payments. A request to pay should, it is urged, be regarded

A specimen series of such Dunning Letters is shown on the following page.

The Slow Payer

The slow payer is usually a thoroughly honest man, but he finds himself in need of ready money to meet the everyday expenses of

Limit of Credit, £150.

Terms: 1 Month, Net.

References—

(1)

(2)

Dr.				A. DEBTOR				Cr.			
19..				£	s.	d.	19..				£ s. d.
Jan. 1	To Balance	.	.	147	15	10		D/L 1; D/L 2, Promises			
								Cheque in a Week.			

No. 1

110 COMMERCE ROAD,
LONDON, S.W. 2.

1st May, 19..

MR. A. DEBTOR,
10 BUSINESS STREET,
TRADETOWN.

Dear Sir,

We beg to call your attention to your unpaid account for March last, amounting to £45 16s. 8d.

As this is now somewhat overdue, we shall be glad if you will let us have a cheque in settlement of same by return of post.

Thanking you in anticipation, we are,

Yours faithfully,

A. SELLER & Co.

No. 3

110 COMMERCE ROAD,
LONDON, S.W. 2.

20th May, 19..

MR. A. DEBTOR,
10 BUSINESS STREET,
TRADETOWN.

Dear Sir,

We regret to have again to call your attention to your overdue account for March last, amounting to £45 16s. 8d.

This is now our third application, and if you wish friendly relations still to continue, we must request you to let us have your cheque forthwith, as we are not disposed to allow any further period of credit.

Yours faithfully,

A. SELLER & Co.

No. 2

110 COMMERCE ROAD,
LONDON, S.W. 2.

10th May, 19..

MR. A. DEBTOR,
10 BUSINESS STREET,
TRADETOWN.

Dear Sir,

We again beg to call your attention to your overdue account for March last, amounting to £45 16s. 8d.

We feel sure this matter must have been quite overlooked by you, and we must ask you to give it your immediate attention, so that we may receive a cheque in settlement by return of post.

Yours faithfully,

A. SELLER & Co.

No. 4

110 COMMERCE ROAD,
LONDON, S.W. 2.

30th May, 19..

MR. A. DEBTOR,
10 BUSINESS STREET,
TRADETOWN.

Dear Sir,

FOURTH APPLICATION

As our repeated applications for payment of your account for March last, amounting to £45 16s. 8d., have met with no response, we hereby give you notice that unless we receive by return of post a cheque in full settlement, we shall be reluctantly compelled to place the matter in other hands for collection.

Yours faithfully,

A. SELLER & Co.

No. 5

110 COMMERCE ROAD,
LONDON, S.W.2.

19th June, 19..

MR. A. DEBTOR,
10 BUSINESS STREET,
TRADE TOWN.

Dear Sir,

FINAL APPLICATION

As your account for last March, amounting to £45 16s. 8d., still remains unpaid, notwithstanding our repeated applications for payment, we have decided to instruct our solicitors to take the necessary County Court proceedings in order to enforce payment.

Only the receipt of your cheque for the full amount, by return of post, will induce us to reconsider our decision.

Yours faithfully,
A. SELLER & Co.

his business and home; and therefore it seems to be in his own self-interest to delay paying his creditors as long as ever possible. To pay his debts promptly would be seriously to inconvenience his own business or home. He finds, perhaps, that his own customers rarely pay up except under pressure, and he, therefore, thinks it the natural thing to put off payment until the very last moment. A letter to appeal to this type of trader must, therefore, show him that he has something to gain, and everything to lose, by getting a reputation for dilatory payments.

Special Dunning Letters

It is a trite but nevertheless true saying that no two persons are quite alike. A letter, which would leave one person quite unmoved, might easily irritate a second person, and quite likely give great offence to a third. Much diplomacy is necessary, especially with "touchy" persons, and also with very slow payers, who are apt to tire out the patience of the management.

Regard must also be had to the firm's past experience of a customer's method of making payments. A customer whose accounts extended for only a short period would not be treated as leniently as a customer who had been dealing on credit with the firm for years.

In many cases, trade is often a matter of seasons. Spring may be one trader's best time; summer, another's; and autumn, another's. Further, there may be periods of brisk trade, and periods of slack trade. A trader, who pays promptly when trade is brisk, may himself get a little behind in his payments when trade is dull. There are thus a number of matters to take into consideration.

Printed forms, coloured stickers, rubber stamps, and ordinary dunning letters, may be useful; but they have not the "pulling" power of a specially-dictated letter, which acts as a direct personal appeal. Whether defaulting debtors be classified as (a) slow, (b) careless, (c) indifferent payers, or in any other convenient groups, experience shows that much better results are obtained from different types of dunning letters for each class than from a mere "form" letter for each and every individual.

In some firms, serial dunning letters are not used for overdue accounts. Instead, an effort is made to deal with each debtor individually. And, in the letter, play is made upon the motive or mainspring of action which is most likely to stir him to the desirable end of paying his account. The idea is to touch him in some particular way; to make him realize that it is to his advantage to pay as soon as possible.

Appeals are made to some of the most powerful mainsprings of action within the debtor. And, if personal knowledge of each defaulting debtor can be obtained, either through personal contact of the customer with the credit manager, or with one of the travellers, the knowledge gained will be valuable indeed. For it will lead to the appeal being made to that particular motive best calculated to incite the debtor to pay the account.

Hence, appeals are made to goodwill, business pride, business honesty, a man's better nature, sympathy, and even fear—all of which are strong incentives to human action.

Some specimen examples follow.

**Making a Debtor Feel
"Uncomfortable"**

Sometimes a brief yet courteous letter is sent to a debtor with a view to making him feel "uncomfortable" if possible, because, having overstepped the limit of credit, he is being individually watched. For example—

DEAR SIR,

We regret to have to draw your attention to your overdue account of £46 18s. 10d. We feel sure that

this must have been overlooked by your counting-house, and we trust therefore that you will send us a cheque by return of post.

Thanking you in anticipation, We are,

Yours faithfully,

The letter is firm but courteous. It does not apologize for asking for what is undoubtedly the creditor's right. Having fulfilled his own part of the contract in supplying satisfactory goods, the creditor has a right to ask for payment at the stipulated time. To ask for payment of overdue accounts as a "favour" is, in the opinion of some, lowering the dignity of the firm, and virtually inviting further dilatory payments.

If the above fails to have any effect, a "follow-up" letter in stronger terms is sent in the course of a week, thus—

DEAR SIR,

We are much surprised at not having received either payment of our account or a reply to our letter asking for this.

If there is any item in the account with which you do not agree, we shall be glad to have particulars so that we may get the matter cleared up. If, however, as we believe, the account is quite in order, we must ask you to be good enough to let us have a cheque without further delay, as the period of credit has already been extended far beyond the normal time.

Yours faithfully,

An Appeal to Goodwill

Sometimes the letter contains an appeal for mutual goodwill, a very successful type of letter, thus—

DEAR SIR,

We try always to retain the goodwill of all our customers, and to do our utmost to accommodate them in the way of credit. You will, of course, realize that we cannot continue to do so unless our customers reciprocate by payment of their accounts within a reasonable time.

A cheque in settlement of the enclosed account will, therefore, be taken as evidence that you appreciate our efforts in this respect.

Yours faithfully,

An Appeal to Business Pride

Sometimes the letter contains an appeal to the debtor's sense of pride in always paying his accounts promptly; also a successful type of letter, as follows—

DEAR SIR,

An examination of your account reveals the very pleasing fact that you take pride in being a prompt payer. We feel sure, therefore, that the enclosed account must have escaped your attention, and that

you will appreciate our action in bringing it before your notice.

With best wishes for a continuance of our excellent relations, We are,

Yours faithfully,

An Appeal to Business Honesty

Sometimes the letter expresses anxiety tempered by a strong personal belief in the debtor's business honesty, thus—

DEAR SIR,

From the excellent references which you furnished, we have no reason to doubt either your ability or willingness to meet your obligations. Neither do we think for one moment that we have made a mistake in allowing you a large measure of credit.

Your continued delay, however, in settling your account is naturally causing us some surprise and anxiety. We should be glad therefore to receive your cheque in settlement, so that we may banish these misgivings from our minds.

Yours faithfully,

An Appeal to a Debtor's Sense of Fairness

Sometimes the letter is a very polite appeal to a debtor's sense of fairness, so that he may feel he has grieved, so to speak, an old friend of his. The following is a specimen—

DEAR SIR,

We are much surprised to find that our requests for payment of your account have met with no response.

We endeavour at all times to give our customers the best possible service, and to regard their interests as entirely our own. We think we have treated you in the same way; but we regret to find that you have not treated us at all fairly. Our letters are still unanswered, and our account is still unpaid.

We would ask you to realize that we have our own obligations to meet. We must pay the manufacturers for the goods which we supply to you. As you know, we value your custom, and hope to have the pleasure of your future orders; but, you, as a business man, must surely see that we cannot give credit indefinitely, especially as, in your case, prices are cut very fine.

Will you please make a special effort to let us have a remittance this week?

Yours faithfully,

An Appeal to a Debtor's Better Nature

Sometimes the letter is a personal appeal to the debtor's better nature, as from a friend who has implicit confidence in him, thus—

DEAR SIR,

On going through the List of Overdue Accounts with the Managing Director we came across your name, and the Managing Director commented on the fact that your account was considerably overdue, and suggested that it be put into other hands for collection.

From personal contact with you, I was able to assure him of the soundness of the account. I told him of your many difficulties and troubles, and I was successful in getting his permission to send you one more letter.

I sincerely trust that you will take advantage of this last opportunity of showing that my confidence in you was not misplaced. I enclose one of the firm's printed address envelopes, marked "Manager," wherein you can place your remittance, which I trust I shall soon have the pleasure of showing to the Managing Director.

Yours faithfully,

An Appeal to Business Instinct

Sometimes the letter contains an appeal to a debtor's business instinct, a plain hint that his action may damage his business reputation. The following is an example of such a letter—

DEAR SIR,

We are very much surprised at your continued silence in regard to our letters respecting your overdue account.

As you know, our Trade Protection Association lists all traders who, the members of the Association have reason to think, deliberately delay their payments; and, in consequence, such traders find it extremely difficult to obtain credit, and even goods.

Perhaps, however, we have misinterpreted your silence, and that there are good reasons both for your silence and the non-payment of your account. In that case, we should be glad to hear from you per return, failing which we must press for a cheque in settlement.

Yours faithfully,

A Case of Sympathetic Treatment

It is necessary at times to extend sympathy towards a debtor who has been hard hit by circumstances, and to permit payment by instalments for a particular occasion. For example—

DEAR SIR,

We understand from our traveller that you have lately been having a very trying time; that family illness, strikes, and new competition have added considerably to your ordinary business worries.

We assure you of our sincere sympathy, and of our willingness to assist you in every way. Owing to the keen prices at which the business was transacted, we cannot allow the account to stand over indefinitely. We will, however, in your special case accept payment by convenient instalments. If you can let us have a cheque for £20 on account, and further weekly instalments, we shall feel that you are trying to help both yourself and us. This must not be taken as a precedent for future payments, but merely as a special concession to assist you in the very difficult circumstances in which you find yourself placed through no fault of your own.

Yours faithfully,

One reason why a man may delay paying his account to a firm is that he has just passed

through some difficult crisis and, though his trade continues as before, and money flows in and out in the ordinary way, his business needs special financing.

Trading on Credit Obtained

Let us take the case of a retail trader who gives credit, and, wisely or unwisely, is obliged to obtain credit in order to finance his business.

Let us suppose that his books show that he owes £2,600, and he is owed a similar sum by his debtors.

The trader must face the difficulty that if he has a few weeks with very poor trade and in consequence gets in arrears with all his firms, he may be able to obtain money from his customers and slowly pay his accounts, until he owes, and is owed, say, £1,600.

If, then, his business suddenly improves again, he may have considerable difficulty in obtaining the full £2,600 worth of credit, as almost certainly every firm will reduce the amount of his credit and some will decline any further business at all.

This man's best chance is to pick out the supplying houses that are essential to him, and with whom he is on good terms, and go on doing as much business as possible with them, paying them as regularly as before.

In order to do this he will probably find that he cannot keep up prompt payments with the other firms.

The fact is soon apparent that some of these firms are inclined to be lenient, and realizing that his difficulty is of a temporary nature, they try to meet him, and also continue doing business with him.

Equally it is also soon apparent that some of the firms, having seen danger, mean to do no more business with him as soon as their accounts are paid.

What is the man to do?

Is it any wonder that he regards the third kind of creditor as an enemy, bent on his commercial destruction? Open credit he must have, if he is to continue his business, but if out of the £2,600 he owes £600 is owing to firms who will never give him credit again; then, in their interests as well as in his own, he dare not pay them out until he has built up credit elsewhere to take the place of what has been lost.

In plain English, the man is trading on other people's capital; and, in such cases, paying accounts without getting goods in return, means reducing the capital on which he is trading: an

act which involves the risk of bringing down the whole concern.

When such a man realizes that a firm's attitude is "You will get no more credit from us any way," he will make them fight for every sovereign.

Whatever a firm's usual terms may be, they should in exceptional cases try to accommodate themselves to a customer's difficulties.

If they mean to do no more business they should not press for payments to be made too rapidly; for, in paying them, he is actually parting with the capital on which he trades.

A better plan is to disregard length of credit altogether, to encourage the customer to buy as well as pay, and with each new transaction to reduce also the amount of the old debt.

Such a letter as the following should meet the case:

DEAR SIR,

We are sorry that you have had a difficult time in trade lately, and hope that this will speedily pass.

Naturally, we want our money, and equally we want to do business. Your account in our Ledger is at present a dead account, for you neither buy nor pay.

Why not do both? Send us some money and an order. You must be buying goods; why not from us?

Send us with each remittance an order for a smaller amount of goods, and we will execute it; only, as we do not like dead accounts, we shall credit the money to the old account, and charge you with the new lot of goods.

You will, of course, understand that this is a temporary arrangement, and that we hope soon to be able to transact business on our usual terms.

Yours faithfully,

Pointing Out the Consequences of Legal Proceedings

Debtors who have seemed quite indifferent to the consequences of not paying their debts have sometimes been successfully dealt with by a letter pointing out the consequences to themselves of foolishly inviting legal proceedings to enforce payment of their account. For example—

DEAR SIR,

Re your overdue account, we have now written you several times, but have received neither payment nor an acknowledgment of our letters; and we may as well tell you, quite frankly, that our patience is exhausted.

You have left us no alternative but to place the account in other hands for collection. We fear, however, that you have hardly realized the consequences of the legal proceedings which you seem to be inviting.

The case will be heard in your own County Court, and will be reported in the local press. It will also be reported in the *Trade Gazette*, and your name will be recorded among the delinquent debtors.

Your name will thus be brought to the notice of the manufacturers and wholesalers from whom you obtain your supplies. This will mean stoppage of supplies and credit in future, even though you remove to another town.

There is also the risk of distraint on your goods to satisfy the amount of the debt and the legal expenses. Do you fully realize the harmful results to yourself of such publicity and exposure?

We assure you we shall be very loth to adopt extreme measures; but, unless we receive your remittance by return of post, the matter will be placed in our solicitors' hands without further notice.

Yours faithfully,

Other Types of Debtors

There are, unfortunately, other types of debtors, men of "straw," who victimize manufacturers, wholesalers, and occasionally the public. The Trade Protection Association have, however, blacklisted a number of them, both under their own names and also under their many aliases.

Letters are useless with such people, who never intend to pay. The law is the only method of dealing with them, when one has been so unfortunate as to supply these undesirable persons with goods, and even the law is a very ineffectual means.

Interest on Overdue Accounts

If it is intended to charge interest on overdue accounts, due notice must be given to the debtor. A mere note on a Statement, that interest will be charged on overdue accounts, is not sufficiently legally in order to enforce the payment of such interest.

Legal Tender

Although the usual method of receiving payment of a debt is to accept the cheque sent in settlement, yet it should be noted that a creditor can demand payment in legal tender, which is as follows—

Bronze coins up to one shilling.

Silver coins up to forty shillings.

Gold coins, Bank of England notes, Currency notes, up to any amount.

Further, the exact amount can also be demanded, as a creditor is not legally bound to give change.

Statute of Limitations

An ordinary trade debt is said to be "statute-barred" if, after six years from the date when payment could first be demanded, no part of the payment has been received, and no promise in writing made concerning the payment.

A debtor sued for such a debt could plead the Statute of Limitations, and the Court would not enforce payment. The reason seems to be, that if a trader is so careless as to neglect an account for six years, and then seek the assistance of the law when evidence and proof of debt are much more difficult to obtain, he deserves to lose it. But if the debtor has in the meantime been out of the country, the six years will begin to run from the time that he returns.

Although the Statute of Limitations gives the debtor power to refuse to pay, this power is by no means a desirable one to exercise, and the man who does it may seriously damage his own good name by the action.

Trade Collecting Agencies and Societies

Few business firms of experience will resort, except in extreme cases, to legal proceedings. The heavy expense, delay, and loss of time, which can be more profitably employed in developing and extending business, are factors which far outweigh the satisfaction of bringing a delinquent debtor to book.

To sue one such debtor means the definite loss of his custom, and possibly of the custom of a large circle of his friends and acquaintances.

A firm soon gets a reputation for harsh dealing whether justified or not, after a few prosecutions have taken place, and been maliciously magnified by the sufferers and even by trade rivals for their own ends.

It is a good "pull" for a traveller, when soliciting business, to be able to point to instances of such prosecutions by his firm's trade rivals, and thus work upon the trader's fear that if he deals with such a firm, he, too, may suffer a like treatment.

It is not, therefore, surprising that many business firms prefer to hand over the task of collecting the difficult debts to some recognized association or agency. These organizations can bring pressure to bear which often prevents the debt going into the County Court at all. They act, so to speak, as a sort of half-way collecting-house between the business firm and the County Court.

The Trade Protection Associations are of two kinds. There are the Mutual Protection Societies, controlled by an honorary committee of management elected by the members. These are mostly old-established and very efficient concerns. The whole of the funds are used to promote the interests of the members. The

second are well-established mercantile firms and societies who, on a profit basis, carry out the work of making status inquiries and of collecting debts.

Procedure of Associations

The method of procedure is first to send a polite letter stating that the association or society has been asked to collect the enclosed account. No threat is made, but payment is asked for by a certain date.

The number of accounts paid on the first application has been a great surprise to many traders.

The effect of a letter from a big trade organization is to conjure up in the debtor's mind a powerful incentive to action—fear! He fears getting a bad reputation in the trade, and thus harming his chances of obtaining credit and goods. To offend one business firm may not matter, but to offend a large body of representative wholesalers and manufacturers is rather more than he is prepared to do. Payment is therefore made in the debtor's own self-interest to preserve his reputation and credit.

A letter from such an organized body seems to carry much more weight than an ordinary solicitor's letter with a threat of legal proceedings.

Even where the first letter is not successful in obtaining money, promises are often received to pay at a later date, when certain funds come in. If no notice is taken of such letter, a sharper one follows, and sometimes personal calls are made.

Should the debt still remain unpaid, the account will be handed over to the Inquiry Department to ascertain whether the debtor is worth prosecuting. They will examine the records, bills of sale, and County Court judgments, get a local report, and finally advise the firm whether the debtor is worth suing or not. This will prevent the firm throwing good money after bad.

With a large number of accounts being handed to the Association for collection, it gets a good insight into the financial condition of numerous firms and traders.

Such information then becomes available for the benefit of all the members. The charge to members for collection of debts is usually 5 per cent of the amount collected, with a maximum charge of 10s. for any one account. The charges of the mercantile societies vary.

Debt Recovery in the County Court

Proceedings for the recovery of debts are taken in the County Court for claims of £20 and under, and also for disputed claims up to £100.

A judge presides over a circuit or group of courts; a registrar is responsible for the official routine; a high bailiff sees that the judgments of the Court are promptly executed.

Proceedings are commenced by the claimant taking out a summons against the debtor in the Court for the district in which the debtor resides or carries on business.

The claimant should write out his name and address, the debtor's name and address, and set forth the nature and amount of the debt or claim. On payment of the fee, the registrar issues the summons, and gives the plaintiff a receipt, called a *plaint note*. On this is mentioned the date when the action will be heard.

The summons, called an ordinary summons, for debts of £2 or less, is served by an officer of the court, and is generally left at the debtor's residence or place of business. It calls upon the debtor to pay the debt and costs, and names a day when he must appear in Court if he intends to dispute the claim.

Where a creditor sues for the price of goods, or, as it is called, a liquidated money demand, over £2, an application can be made to the registrar for a "default summons."

This includes an affidavit of the debt, which must be filled up and sworn before the registrar, who files it with the claim. The default summons gives notice to the debtor that he must, within eight days of service, give notice that he intends to defend the claim, or he will not be allowed to do so.

If he does signify his intention to defend or dispute the action, this is called "entering an appearance." A default summons must be served personally on the debtor.

If the debtor evades service, the registrar, on proof thereof, may make an order for the summons to be sent by post. If the defendant enters an appearance, a date will be fixed for the hearing of the action. If he does not enter an appearance, the plaintiff may apply for forms for signing judgment. When these are signed, the plaintiff is in the same position as if the case had been heard in Court and judgment pronounced in his favour.

The first step to an action is to fill up the official form or "*praecipe*," and return it with two copies of the statement giving particulars (in detail) of the claim.

The affidavit is a declaration, on oath, as to the particulars of the debt. A person making a false affidavit is therefore liable for perjury. An affidavit may be required for an ordinary summons, when application is made to sue a debtor in a Court in a district in which he does not reside.

When third parties are required to give evidence, or produce documents, a subpoena is served on them. The travelling expenses of the witness must be paid, or he is not compelled to attend.

On the day of the trial, the plaintiff must pay the hearing fee, and the receipt of the fee is marked on the *plaint note*. When the case is called, the defendant may not appear, and the case comes before the registrar, who will ask the plaintiff or his book-keeper, on oath, if the debtor still owes this money.

If he does, the registrar will then make an order to "Pay in seven days," or, if the amount is large, by monthly instalments. If the defendant does appear, and the case is not disputed, the registrar may question the defendant as to his means, and then make a similar order.

If the case is disputed, it must, of course, come before the judge in open Court. The plaintiff must prove the receipt of the defendant's order for the goods, and also the actual delivery to him of the goods. Both parties may enter the witness box and give evidence.

If the judge decides against the defendant he will make an order for payment of the debt and costs within a certain time; and the plaintiff, or judgment creditor as he is now called, must wait.

When the debt or claim exceeds £5, either party may require that the case be tried by a jury; but ten days' notice must be given.

When the money is paid into Court, the plaintiff will be notified. He must then attend at the Court on one of the stated paying-out days in order to obtain the money.

If the money is not paid into Court, it then becomes necessary to enforce the judgment. Execution is the commonest method, attachment and sale of the debtor's goods. Sufficient are seized to amount, when sold, to the total of the debt and costs.

Judgment summons is another method. This calls upon the debtor to come to Court for examination as to his means. On proof of means, the Court can order payment in full or by instalments, and, in default, commit the debtor to prison.

Garnishee proceedings are another method. These are directed against a third party (usually a bank) who holds money due to the defendant. The third party is forbidden to pay any money to the defendant until the plaintiff has been paid.

Card Record of Overdue Accounts

It can be seen, therefore, that the question of overdue accounts is a very important one, and if not dealt with systematically is likely to involve the trader in a great deal of trouble and expense. Anything, therefore, that is a help in keeping track of the position of each overdue account is likely to be welcomed by a trader. The simplest method is the Card Index method. This Card system, which has been adapted with such great success to book-keeping and statistical work, is being gradually brought into use for many business purposes, including the systematic and persistent following up of overdue accounts.

All the necessary particulars about each account, when debtor was written to, what reply received, and what arrangements made, are at once available for the manager or proprietor.

Such a card record gives him a comprehensive survey of his overdue accounts, and enables him to follow them up, and give them that prompt and continuous attention which is necessary to prevent loss through accounts of this character.

The cards are filed in order of date, so that they get attention at the proper time. Thus, if a card shows an account for which the balance due was promised to be paid on 15th May, on the 15th of May the card with its promise of payment would duly come before the manager or the proprietor for his consideration. It may be that the promise has been fulfilled, or it may be that some one of the proceedings previously mentioned may be necessary.

CHAPTER XII

BANKS, BANKING, AND CHEQUES

THE relations of traders or firms with their bankers comprise, among other things—

1. The ordinary routine work of paying in sums of money and of making payments to customers, and withdrawing cash, by cheques; and

2. The more intimate business discussed in the bank parlour between the principals of the firm and the bank manager.

The man who sees banking only from the side of accountancy, quickly realizes that these great institutions are masters of organization and wonderfully punctual and accurate.

But even this knowledge may create the impression that a bank deals only and absolutely with the rigid laws of arithmetic.

In no place, however, is human nature so clearly understood as in the bank parlour and among the higher officials of a bank.

Even though the bases of all calculations and actions may be rigidly set by balance sheets, trading accounts, and mathematical laws, the interpretations of these things and the consequent decisions upon them are quite as much influenced by personal qualities as most of the other important transactions of commerce.

There is a tradition that at one time the banker stood behind the trader in an especially genial and friendly manner, as his capitalist and his ally; but that owing to the amalgamations of banks and the centralization of authority, this is no longer the case.

But such an opinion scarcely presents the real truth of the matter.

At one time, without doubt, the fact that every good-sized town had its own local banks, and the actual banker, or owner of the bank, personally knew most of the traders, did give a personal quality to banking it may have lost.

But, it is as true to-day as ever it was that the banker stands behind the business man; and even though there may be a great deal more of centralizing authority, and many more references may be made to "headquarters," the "bank-parlour" side of banking is still its most important side.

During the difficult decade that followed the war, the close alliance of bankers and traders saved many business men from disaster, and

British trade can be very grateful indeed to the generosity and wisdom with which our great money organizations interpreted their duty.

This point is emphasized here, because it is still a sound method of business, just as it always has been, to maintain intimate and frank relations with the bank.

Troublous times may come to any business, and during the time of crisis the soundest advice to any man in business is "Consult your banker." Where the faint-hearted trader may fly to his lawyer—his bolder and more level-headed neighbour goes to the banker.

As an answer to the frequently stated opinion that "the local manager can do nothing without referring the case to headquarters," it should be recognized that the great banking directorates are continually demanding a very high quality of initiative and personality in the men whom they appoint to hold such positions as branch managers, and this is not a demand for merely ornamental abilities.

Banks are of two kinds—

1. Commercial or Trading Banks, which are run for the purpose of profit to the shareholders.

2. Savings Banks, which are run for the purpose of encouraging thrift.

A Bank of Issue, as it is sometimes called, is a Bank which has the legal right to issue its own bank notes. The Bank of England in England and Wales, Scotch Banks in Scotland, and Irish Banks in Ireland are examples of banks of issue. Bank of England Notes are not lower than £5, but Scotch and Irish Notes are as low as £1.

The wise resolution of the Government to abandon the issue of its own currency notes and to empower the Bank of England to issue bank notes of £1 and ten shillings, will probably have the effect of bank notes of low denomination being current for many years to come.

The currency note was a war-time necessity, and apparently for a long period after the war was over, it served its purpose better than any other kind of currency could do.

But the issue of bank notes by a separate organization, even under a government guarantee, has obviously sound advantages over a direct currency issue by any government.

Functions of a Trading Bank

The functions of a Trading Bank are as follows—

1. To receive money from customers either on Current Account or on Deposit Account.
2. To discount bills of exchange and promissory notes.
3. To lend money to customers, either as a distinct loan, or as an overdraft on current account. Scotch banks have a system of "cash credits." On the personal guarantee of two or more persons, the banker places an agreed sum to the credit of his customer. The customer is not charged interest on the whole sum, but only on such amounts as he draws.
4. To act as agent for customers, i.e. to collect dividends, pay subscriptions, and buy and sell shares on the Stock Exchange. The bank is thus acting as a trustee for its customers.
5. To take charge of, and keep in safe custody, customers' deeds, bonds, plate, jewels, or other valuable property. The bank thus acts as warehouseman for its customers' property, but has no lien on it for any loan or overdraft. The banker is legally a "gratuitous bailee."

Service of the Modern Banks

The tendency of modern book-keeping is to pass all money transactions through the bank, which means that practically all money received by a firm from its customers is received by the bank on its behalf, and all the payments the firm makes are payments made by the bank. These two sets of duties are performed by payments in, in the form of lodgments, and payments out, in the form of cheques.

Where even an unbusinesslike man makes a rigid rule to pay all he receives into the bank, and to pay all his bills, and make his withdrawals by cheque, his cash account falls into a simple kind of order, and by the aid of his pass book or his own copy of it, he can easily trace any money transaction.

A visitor to the City of London passing through some of the busy streets around the Mansion House, may be amazed at the number of banking houses, and he may wonder how it is that so many such institutions can thrive.

But the moment he realizes that these banks are practically the offices in which nearly all money transactions over a few pounds are dealt with, the wonder ceases.

The great services rendered by banks, however, do not obviate the necessity for book-keeping in the separate business offices, but

afford an invaluable check upon that book-keeping, and assist the process of auditing.

Opening a Current Account

To open a Current Account with his local banker, a trader must be introduced by, or give as references, persons who are already customers of the bank.

Where the introduction is made otherwise than by customers of the bank, two references are usually required. The bank manager will make private inquiries regarding the proposed customer. If the references are satisfactory, a sum of money is paid in, and the account is thereby opened.

The new customer is given a book of cheque forms, 25, 50, 100, or as many as he requires. His account is debited with the 2d. stamp on each cheque, but no charge is made for the book of cheque forms.

Although it is quite legal to draw a cheque on plain paper and put a 2d. stamp or two penny stamps on it, a banker always requests his customers to use the bank's own specially printed and numbered cheque forms in order to prevent forgery.

The banker thus knows the numbers of the cheques in each customer's hands; and this will assist him in detecting, as a forgery, any cheque purporting to be signed by one of his customers, if such cheque bears a serial number different from the serial numbers issued to such customer.

Customers' Signature Book

A banker is expected by law to know his customers' signatures. If a banker pays a cheque bearing a forged signature of a drawer, he is liable to repay the money to his customer.

A bank, therefore, keeps a copy of its customers' signatures in a Signature Book, each customer being requested to write his signature in it when he first opens an account. In cases of doubt, the bank can thus compare the signature on the cheque with the signature in its book.

The Current Account

This is the running account of the business man or merchant with his banker. Into this Current Account he daily pays all the cheques, money orders, postal orders, bank notes, and coin which he receives; on this account, too, he draws all cheques in payment of his creditors, and all cheques for petty cash and for his own private purposes.

Most London banks require a certain balance to be always kept in the account ; they do not allow interest on this balance, but, on the other hand, they do not charge for keeping the account. Provincial banks, however, allow interest on current account, and also charge for keeping the account when the balance falls below a stipulated amount.

The Deposit Account

The Deposit Account is an account into which a customer places money with the bank at an agreed rate of interest. Such money cannot be withdrawn without giving a certain period of notice. The greater the rate of interest, the longer the period of notice required for withdrawal.

If desired, money may be transferred from Current Account to Deposit Account. On the other hand, there is no necessity for a person to have a current account with a bank in order to be able to open a deposit account there.

The rate of interest is generally $1\frac{1}{2}$ per cent below the Bank of England discount rate, in cases where the usual seven days' notice of withdrawal must be given. With longer periods of notice, the rate is proportionately higher, but generally there is a maximum of 4 per cent.

The receipt given for money placed on deposit is not transferable, and does not require a stamp. The following is a specimen—

<p>DEPOSIT RECEIPT</p> <p><i>Not Transferable</i></p> <p>Repayable on 7 days' notice</p> <p style="text-align: center;">£200</p> <p>RECEIVED of <i>William Brothers</i> the SUM OF Two hundred pounds, to be placed on Deposit Account.</p> <p style="text-align: right;">For THE RELIABLE BANK, LTD., E. Jackson King,</p> <p>Entered.. <i>Manager.</i></p>	
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Banks usually take a copy of the depositor's signature for the purpose of comparison when money is withdrawn. On withdrawal, the deposit receipt must be produced, and the receipt on

the back must be signed by the depositor, who must affix a 2d. stamp, if the amount is £2 or over.

Interest is generally allowed to accumulate until the depositor asks for payment. If he has a current account also with the bank, he may have his deposit interest transferred to the credit of the current account.

Large sums of money are placed on deposit with the various banks ; the bankers make a considerable profit on such sums, by lending them out again at a much higher rate of interest than they themselves pay for them.

Bank Pass Book

This is a book in which are detailed all the transactions of a trader with his banker on current account. It is a record of all the amounts he has paid into, and all the amounts he has withdrawn from, the bank. By means of this Pass Book the trader checks the Bank Account in his own Cash Book.

The Pass Book is, of course, a copy of the Bank's Ledger Account with their customer, and the entries are *prima facie* binding on the banker, though he is not precluded from showing that certain entries were made in error, unless the customer has acted in good faith on their supposed correctness.

To avoid the possibility of such occurrences, the Pass Book should be checked by the customer at regular intervals.

There are two ways in which the Pass Books are written up ; sometimes it is the bank in account with the customer, and sometimes the customer in account with the bank. In some cases, therefore, the entries will appear in the Pass Book on the same sides as in the trader's Cash Book ; while, in other cases, they will appear on the opposite sides. Specimens are given on the next page.

In the first case, the bank debits itself with the money it receives, and credits itself with the money it pays away. In the second case, the bank credits the customer with what he pays in, and debits him with what he draws out. In the former case, therefore, the Pass Book will be a copy of the Bank Account in the customer's own Cash Book.

For an example of the checking of a Pass Book with the Bank Account in a trader's own Cash Book, and of the writing up of a Reconciliation Account adjusting the differences, reference should be made to the chapter on Recording Cash, page 144.

BANKS, BANKING, AND CHEQUES

123

(1)

THE RELIABLE BANK, LTD.

*In Account with**Dr.*

MESSRS TOMPKINS, BROWN, & TOOLEY

Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 8	To Cash		700	—	—	Jan. 9	By Petty Cash		10	—	—
10	" "		186	15	10	12	" Wages		43	11	10
13	" "		78	14	6	14	" F. Streele		18	9	6
18	" "		135	18	5						

(2)

MESSRS. TOMPKINS, BROWN, & TOOLEY

*In Account with**Dr.*

THE RELIABLE BANK, LTD.

Cr.

19..			£	s.	d.	19..			£	s.	d.
Jan. 9	To Petty Cash		10	—	—	Jan. 8	By Cash		700	—	—
12	" Wages		43	11	10	10	" "		186	15	10
14	" F. Streele		18	9	6	13	" "		78	14	6
						18	" "		135	18	5

PAYING-IN SLIP

THE RELIABLE BANK, LTD.

128 WESTERN ROAD,
FINSBURY,
S.W.2.

Date: 17th April, 19..

CREDIT: John Timsley

	£	s.	d.	£	s.	d.
Gold	10	10	—			
Silver	4	13	6			
Copper		2	10			
Currency Notes—						
£1	6	—	—			
10s.	2	10	—			
Bank Notes				23	16	4
Postal Orders				5	—	—
Cheques (to be entered singly)—				3	13	6
O. R. Smith				36	18	10
T. Q. Reeve				27	14	11
C. X. Lisle				63	8	6
J. A. Brule				19	15	10
S. Jampe				57	13	9
Total	£238	1	8			

THE RELIABLE BANK, LTD.

128 WESTERN ROAD,
FINSBURY,
S.W.2.

Date: 17th April, 19..

CREDIT: John Timsley

	£	s.	d.	£	s.	d.
Gold	10	10	—			
Silver	4	13	6			
Copper		2	10			
Currency Notes—						
£1	6	—	—			
10s.	2	10	—			
Bank Notes				23	16	4
Postal Orders				5	—	—
Cheques (to be entered singly)—				3	13	6
O. R. Smith				36	18	10
T. Q. Reeve				27	14	11
C. X. Lisle				63	8	6
J. A. Brule				19	15	10
S. Jampe				57	13	9
Total	£238	1	8			

Bank Paying-in Book

For the purpose of paying in money for the current account, banks supply their customers with a special book, called a Paying-in Book. It consists of a number of printed slips, each slip being perforated down the centre so that the customer shall have a counterfoil of each slip.

The slip details the amount of the payment and shows in what manner it has been made up, namely, gold, silver, notes, and cheques. The bank cashier places the bank's stamp on the counterfoil and initials it; the slip he tears off and pins to the cheques and notes paid in. The counterfoils are useful for checking the Pass Book and also the customer's own Cash Book.

A specimen of a paying-in slip is shown on page 123.

It is very important that all cheques received should be paid in on the same day if possible. The customer should also see that all order cheques are properly endorsed.

Some banks give credit as soon as the cheques are paid in, and debit back any that are returned unpaid. Other banks do not give credit until the cheques are actually met. In the case of country cheques the clearing requires three days.

Obviously, then, the customer should pay cheques in as quickly as possible, as there is always the possibility of a drawer failing in the meantime.

When a trader wishes particularly to know the "fate" of a certain cheque before he

dispatches the goods, he can arrange for his banker to send a prepaid telegram to the paying bankers, so that they can wire at once whether the cheque is paid or not.

Cheque Form

A cheque is a written order on a banker to pay a stated sum of money to a stated person, or to his order, or to bearer. A specimen is given below.


The form is perforated so that it may be divided into two parts. The larger portion, called the cheque, is paid away to the person stated therein, and the smaller portion, called the counterfoil, is retained in the cheque book for reference. Where a firm or company keeps a very large balance at the bank, the banker often supplies cheque forms bearing the printed name of such firm or company at the top of the cheque form.

Bearer and Order Cheques

A "bearer" cheque is a cheque drawn payable to bearer, i.e. one that can be cashed or negotiated without previous indorsement.

An "order" cheque is a cheque drawn payable to a certain person's order. It must be endorsed before it can be cashed or transferred. Endorsement of an "order" cheque by the payee turns it into a "bearer" cheque, unless the payee endorses it payable to the order of some other person.

Only the drawer is entitled to alter an "order" cheque to "bearer," and the alteration must bear his initials; but either drawer or

COUNTERFOIL	CHEQUE FORM
<p>No. $\begin{smallmatrix} O \\ P \end{smallmatrix}$ 87654</p> <p style="text-align: right;">26th April, 19..</p> <p style="text-align: center; margin-top: 20px;"><i>Tom Rawley & Son</i> <i>March A/c</i></p> <p style="text-align: left; margin-top: 20px;">£167-18-11.</p>	<p style="text-align: right;">178 WESTERN ROAD, LONDON, S.W.2.</p> <p style="text-align: right;">26th April, 19..</p> <p style="text-align: center; margin-top: 20px;">THE RELIABLE BANK, LTD.</p> <div style="text-align: right; margin-right: 20px;">  </div> <p>PAY to Messrs. <i>Tom Rawley & Son</i>..... or ORDER One hundred and sixty-seven pounds eighteen shillings and elevenpence.</p> <p style="text-align: left; margin-top: 10px;">£167-18-11.</p> <p style="text-align: right; margin-top: 10px;"><i>E. Aubrey Lord.</i></p>

holder may alter a "bearer" cheque to "order," and the alteration does not require initialing.

Open and Crossed Cheques

An "open" cheque is one that is not crossed, i.e. one that can be cashed at the counter of the paying bank.

A "crossed" cheque is one which bears across the face of it two parallel transverse lines, with or without the words "and Co."

The object of crossing a cheque is to prevent it being cashed over the counter by anyone who might accidentally or fraudulently come into possession of it. A crossed cheque will not be paid to any person except a banker; and if a certain banker's name is added in the crossing, then payment will be made only to that particular banker. The practice of crossing cheques began as a Clearing House custom, and was eventually recognized by law. Thus postal orders, money orders, and demand drafts, are usually crossed when sent by post or paid into a bank for collection.

The words "and Co.," or "Not negotiable,"

do not alone form a crossing; but two parallel transverse lines on a cheque do, in themselves, constitute a crossing. The words previously mentioned are merely "additions" to a crossing.

Cancelling a Crossing

It is contrary to the provisions of the Bills of Exchange Act to alter or cancel a crossing. Payees who have no banking account sometimes ask for this to be done; and sometimes cheques drawn to impersonal payees such as petty cash and wages, get crossed by mistake, and have consequently to be re-opened.

This is done by getting the drawer to write in the crossing the words "Please pay Cash," and to initial the cancellation. Some Banks are not satisfied with initials, but require the full signature where a cheque is "opened."

Specimen Crossings

The following are specimens of "general" and "special" crossings commonly met with in business—

GENERAL CROSSINGS							
1	2	3	4	5	6	7	8
	& Co.	Not Negotiable.	Not Negotiable. & Co.	Under Twenty Pounds. & Co.	& Co. A/c Payee Only.	Not Negotiable. & Co. Under Fifty Pounds.	Not Negotiable. & Co. A/c Payee Only.
SPECIAL CROSSINGS							
9	10	11	12				
Smiths Bank, Ltd.	Not Negotiable.	Smiths Bank, Ltd.	Not Negotiable. Smiths Bank, Ltd. Under Fifty Pounds.	Not Negotiable.	Smiths Bank, Ltd. A/c Payee Only.		

"Not Negotiable"

The words "Not Negotiable" are often written on the top of a cheque, and sometimes in the crossing, in order to protect the owner against loss by theft when the cheque is being sent by post. Otherwise, a cheque being a "negotiable" instrument, a *bona fide* holder could retain it, even though the cheque had been lost or stolen.

The words "not negotiable" may be written on the cheque either by the drawer (which is the usual practice) or by any holder.

By Sect. 81 of the Bills of Exchange Act—

Where a person takes a crossed cheque which bears on it the words "not negotiable," he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had.

The addition of these two words does not, therefore, prevent the further transfer of the cheque; but a subsequent recipient takes such a cheque entirely at his own risk. If the cheque is one which has been found or stolen, the giver's title is legally defective; hence the receiver's title is also defective. Even though he may have given value for it, he can legally be made to restore it to its rightful owner.

It should be noted that the phrase "Not Negotiable" applies legally only to crossed cheques. Other documents could, of course, have these words written on them, but it would not avail in the eyes of the law; as the statutory negotiability of commercial documents can only be taken away by statute law.

"Account Payee Only"

The words "Account Payee Only" are frequently found as part of a crossing on a cheque. The object of these words is to ensure that the collecting banker shall place the proceeds to the account of the payee.

For a time it was thought that bankers could safely disregard such words, since no provision for these words was made in the Bills of Exchange Act. Recently, however, these words have come under judicial notice, and it was held that to ignore such a direction would render a banker liable to a charge of negligence.

Endorsement of Cheques

Endorsing or indorsing is the signing by the payee of his signature on the back of the cheque, though apparently it is quite legal if the signature is made on the front of the cheque.

Bearer cheques do not require endorsement; but all order cheques must be endorsed.

Where, in a cheque payable to order, the payee's name has been misspelt, the payee is allowed by the Bills of Exchange Act to endorse himself as so described, and to add, if he thinks fit, his proper signature. Courtesy titles such as Mr., Mrs., Miss, Messrs., Capt., Dr., and Esq., are not part of a person's signature, and may, therefore, be omitted.

Endorsements in pencil are quite legal, but would not be accepted by the banker owing to the risk of their becoming illegible. Endorsements made by means of a rubber stamp would not be passed until they had been verified by the banker.

Endorsements *per procurationem*, or *per pro.*, are commonly met with, as for example—

per pro. (or *p.p.*) William Brothers,
G. Everton Blake.

The full signature is necessary; for the initials "G.E.B." would not be passed by the banker. *Per pro.* endorsements are not accepted on dividend warrants. Bankers are entitled to inquire as to the extent of the power of procuration, and to ask for confirmation of such endorsements.

Specimens of Proper Endorsements

The examples of endorsements given on the next page should be carefully noticed. They will be found extremely useful for reference in cases of uncertainty.

Fictitious or Non-existing Payee

By Sect. 7 of the Bills of Exchange Act, 1882, a cheque drawn payable to a fictitious or non-existing payee or ORDER, such as a cheque drawn payable to *Wages*, *Petty Cash*, or ORDER, may be treated as a cheque payable to bearer, that is, as not requiring an endorsement. Some bankers, however, require the signature of the person drawing the money, as this acts as a receipt. Other bankers require the personal signature of the drawer, on the ground that an "impersonal" payee is not a "fictitious" payee within the meaning of the Act.

Cheques Payable to "Self"

A cheque payable to "Self" requires the personal endorsement of the drawer himself.

Stale Cheque

A stale cheque is one that is some months old when presented for payment. The period which

CHEQUE PAYABLE TO	ENDORSEMENT
Mrs. Brown	Emily (or other Christian name) Brown, or E. Brown.
Mrs. Henry Smith	Martha Smith, wife of Henry Smith.
Miss Evelyn Blake (now married)	Evelyn Stoper or E. Stoper, <i>née</i> Blake.
Arthur Tompkins	Arthur Tompkins, or A. Tompkins. (The full Christian name is not important as long as the initials agree.)
R. Smith (an illiterate person)	His R. X Smith mark. Witness: Henry Beale, 57 Stanford Street, Tilchrist.
— Terle, Esq.	A. (or other initial) Terle. (The mere surname is not a signature.)
Mr. J. Steel (Misspelling for Steele)	J. Steel. J. Steele.
Fred Rogers, Junior, Esq.	Fred Rogers, or F. Rogers, or F. Rogers, Junior. (Some banks require the word " Junior.")
The Misses Field	Mabel Field Ethel Field (both must sign).
Messrs. Linton	F. & G. Linton, or Linton & Son, or Linton Bros., or Lintons. (The endorsement must indicate the plural.)
Self	Signature of Drawer.
The X Y Z Co., Ltd.	The X Y Z Co., Ltd., or <i>per pro.</i> The X Y Z Co., Ltd., or For and on Behalf of The X Y Z Co., Ltd., or On Account of The X Y Z Co., Ltd., or For The X Y Z Co., Ltd., F. Smithers Brown, <i>Secretary.</i> (The last endorsement is the most usual.)
Messrs. High & Low, Ltd.	For High & Low, Ltd., S. R. Timms, <i>Cashier</i> (Authorized to endorse Cheques).
The A.O.P. Co., Ltd. (now in liquidation)	For The A.O.P. Co., Ltd. (In Liquidation), Alfred Groome, <i>Liquidator.</i>
Managers of Excelsior School	For the Managers of Excelsior School, Robert Connings, <i>Chairman.</i> or Robert Connings } <i>Managers of</i> Stephen Sarle } <i>Excelsior School.</i>

CHEQUE PAYABLE TO	ENDORSEMENT
The Treasurer of the Select Cricket Club, or The Select Cricket Club	For the Select Cricket Club, Julius Thatcher, <i>Treasurer.</i>
Col. O. Simpson	O. Simpson, or O. Simpson, Col. (Not Col. O. Simpson, as this would not be a signature.)
L. Strowel (now deceased)	For L. Strowel, B. Grande (<i>Executor or Administrator</i>), or For Self & Co., <i>Executors (or Administrators)</i> of L. Strowel, B. Grande. (<i>One Executor's signature is sufficient.</i>)
The Trustees of L. Strowel	For L. Strowel, B. Strong O. Leach } <i>Trustees.</i> G. Foot L. Marks (<i>All the trustees must sign.</i>)
Mr. Jock MacGlaughlan	J. (or Jock) MacGlaughlan. (J. MacGlaughlan would not be passed, as "Mac" and "Mc" are not interchangeable.)

constitutes "staleness" varies with different banks; with some it is three months; with others, it is six months. The general practice is to refuse payment of a "stale" cheque until reference has first been made to the drawer. Legally, however, a debt on a cheque can only be extinguished after six years by the operation of the Statute of Limitations.

Post-dated Cheques

A post-dated cheque is one which bears a date later than the current date on which it is drawn. It cannot be cashed before the proper date on the cheque itself. The treatment of post-dated cheques in the books is dealt with in the chapter on Recording Cash, page 149.

Amount of a Cheque

Where the amount of a cheque, as expressed in words, does not agree with the amount as expressed in figures, the banker is bound *by the words*. It is the usual practice, however, for such cheques to be returned to the drawer, marked "*Words and figures disagree.*"

Dishonoured Cheques and Marks Thereon

A dishonoured cheque is one which a banker for some reason or other has refused to pay on

presentation. The usual practice is to write some explanatory word or phrase on the top of such cheque, as under—

R/D—Refer to Drawer.
N/S—Not Sufficient (i.e. funds).
N/A—No Assets.
N/E—No Effects.

Endorsement irregular.

Words and figures disagree.

Out of date, or stale.

Drawer's signature differs (i.e. from that in the Bank's Signature Book).

Drawer deceased.

Alterations require drawer's signature.

Account closed, or No Account.

Post-dated.

Receipt on cheque requires stamp.

Cheque mutilated.

Effects not cleared. Present again.

Payment stopped, or Orders not to pay.

Should a banker dishonour a customer's cheque in error, he would be liable to him for damages.

Receipt Form on Cheques

In modern times the practice has grown up of having receipt forms printed at the foot or on the back of the cheques. The signature on the

receipt is intended to act also as an endorsement of the cheque; but, unless there is a printed note on the cheque to this effect, many bankers require a second signature for the endorsement of the cheque itself.

In cases where firms recognize only their own printed receipts, the difficulty is got over by sticking the printed receipt on the receipt form, and then endorsing the cheque; for the printed receipt may be signed by a cashier, who may not be authorized to endorse cheques.

Lost Cheque

Where a cheque has been lost, the holder can compel the drawer to give him a new cheque, but must give security to the drawer, if required, to indemnify him in case the lost cheque should be found and put into circulation. The new cheque should be marked "duplicate," and the banker instructed to pay it.

Bank Notes and Drafts

These are really bills of exchange drawn by one banker on another. They are fully dealt with in the chapter on Bills of Exchange later on.

Legal Provisions as to Crossed Cheques

The legal provisions as to the crossing of cheques are found in the Bills of Exchange Act, Sects. 76 to 78, which read as under—

By Sect. 76—

(1) Where a cheque bears across its face an addition of—

(a) The words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or

(b) Two parallel transverse lines simply, either with or without the words "not negotiable"; that addition constitutes a crossing, and the cheque is crossed generally.

(2) Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially and to that banker.

By Sect. 77—

(1) A cheque may be crossed generally or specially by the drawer.

(2) Where a cheque is uncrossed, the holder may cross it generally or specially.

(3) Where a cheque is crossed generally, the holder may cross it specially.

(4) Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."

(5) Where a cheque is crossed specially, the banker

to whom it is crossed may again cross it specially to another banker for collection.

(6) Where an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.

Sect. 78 enacts—

A crossing authorized by this Act is a material part of the cheque; it shall not be lawful for any person to obliterate or, except as authorized by this Act, to add to or alter the crossing.

The above provisions apply also to dividend warrants (Sect. 95).

By the Finance Act, 1883, Sect. 17, the provisions of the Bills of Exchange Act as to crossed cheques are also extended to

Any document issued by a customer of any banker and intended to enable any person to obtain payment from such banker of the sum mentioned in such document.

Revocation of Banker's Authority to Pay

The duty and authority of a banker to pay cheques drawn on him by his customer are determined by—

(a) Countermand of payment.

(b) Notice of customer's death.

(c) Insanity of customer legally declared.

(d) Notice of act of bankruptcy on part of customer.

(e) Receipt of a Garnishee Order.

A Garnishee Order is an order of the Court attaching a debtor's bank balance, until the case is settled. The object is to prevent the debtor applying the money to his own use instead of paying his creditors. In such a case, the banker will cease to honour his customer's cheques, even though the bank balance may be largely in excess of the judgment debt.

Miscellaneous Notes on Cheques

A cheque is not legal tender. The only paper money that is legal tender in England and Wales are Bank of England Notes for sums above £5, and Currency Notes of £1 and 10s. respectively, which are legal tender for any amount.

A foreign cheque, i.e. one received from abroad, requires a 2d. stamp affixed to it before being dealt with in this country.

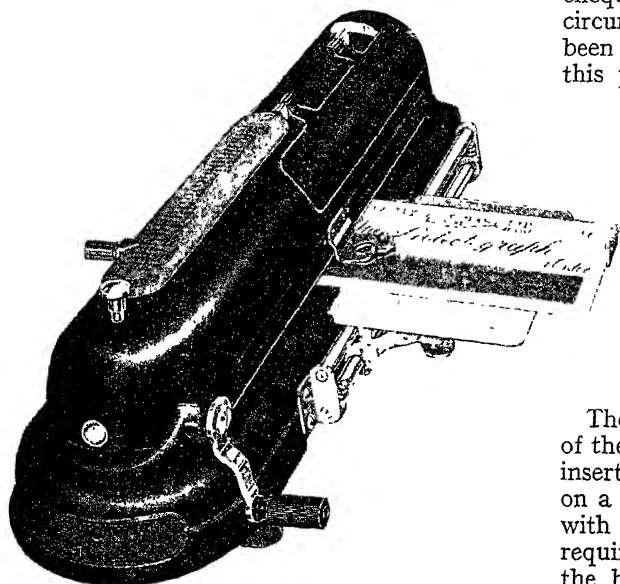
When a cheque is sent through the post, the drawer, having made the post his agent, must bear any loss arising from the miscarriage of the cheque. Should the payee, however, request a cheque to be sent by post, the post office then becomes the agent of the payee, who is thus liable for any loss occasioned thereby.

A paid cheque is legally the property of the drawer. London banks return all paid cheques in the pocket of the Pass Book. Some banks retain them; others surrender the paid cheques on the customer signing a declaration that the balance shown by the Pass Book is correct.

A banker is liable for any loss caused by his paying a cheque bearing a forged signature of a *drawer*; but he is not liable for any loss caused by the forged signature of an *endorser*.

Protective Devices

Fraud is, unfortunately, a common occurrence in business life, and safeguards must, therefore,



PROTECTOGRAPH CHEQUE WRITER

be employed. To protect business people against counterfeit bank notes and currency notes, a watermark is generally adopted as evidence of genuineness.

To prevent the second payment of cheques, the banks effectively cancel them before returning them to the drawer; while some banks retain the paid cheques permanently.

Forged cheques are frequently met with in business, names and amounts having been altered without the knowledge of the drawer. The alteration of words and figures, so that the amount of the cheque becomes much greater than the drawer intended, has long been a source of anxiety both to business men and bankers. By the aid of chemicals, figures and

words have been obliterated, and fresh figures and words inserted with a skill that has defied detection.

Carelessness in the drawing of cheques, however, has largely contributed to many falsifications. Thus, a cheque for eight pounds in which the word "eight," is written with a slight space after it, needs only a "y" at the end, and a nought after the figure 8 in the pounds space, to make the cheque ten times its original value.

Similarly, three can be easily altered to thirty, four to forty, five to fifty, and so on.

Various methods have been tried to prevent cheque frauds, but the skill of the forger has circumvented them. Machines have, therefore, been invented with a view to counteracting this pernicious form of business activity.

A useful machine is the pin-point perforator, which perforates the amount on the cheque as a safeguard against the alteration of the written amount.

One of the best known and most effective cheque-writing machines, however, is the Protectograph. It prints the amount of the cheque in two colours, one word at a time. The names of the figures are printed in red; while the words "pounds," "shillings," and "pence" are printed in black.

The cheque, after being drawn with the name of the payee and the amount in figures, is then inserted in the Protectograph. The cheque rests on a small platform, while a pointer is moved with the left hand up or down the scale to the required amount. One turn of the handle at the bottom of the machine prints the entire word, and causes the cheque to move automatically to the left. The process is repeated with each figure-word, and with the words "pounds," "shillings," and "pence," and at each turn the cheque moves on automatically. The process is quicker than handwriting, as the machine writes a complete word at each turn. A specimen is shown on the next page.

The predominant feature of the process is that the words, by means of special type and ink, are punched or crushed into the very fibres of the paper, yet leaving a legible embossed surface. The ink is absolutely indelible; all the chemical liquids used to efface writing and printing fail to touch this ink. The automatic spacing prevents additional letters being stabbed in, and stars can be printed at the beginning and ending of the amount to prevent any lengthening

of it. The machine will also punch into the cheque the words "Not Negotiable," and the crossing "& Co., Account Payee Only." It can be used for any size cheque, and for any amount.

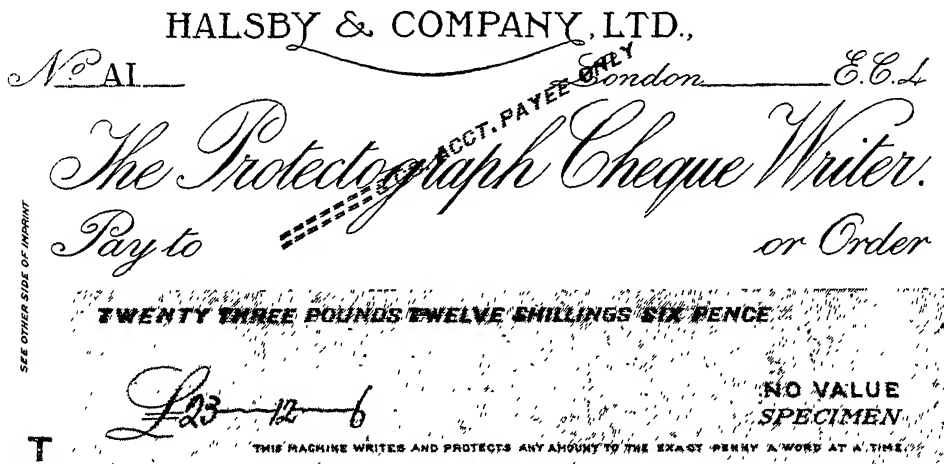
Bank Loans and Advances

One of the most intricate and, at the same time, the most interesting part of banking is that which relates to loans and advances. So many of the services of the bank follow an orderly method of routine, that the ordinary onlooker can hardly realize how much more complex is

the discovery was made that it was possible for a bank to perform its functions at remarkably low charges and, at the same time, to make substantial profits.

In the pre-Victorian period, when private banks arose all over the country to meet the changing needs of business men, this new army of bankers adopted an almost universally generous policy in this respect, endeavouring, as far as they possibly could, to perform their useful duties in the way that should be most favourable to their clients.

Here and there banks of a less generous kind arose, and it occasionally happened that unwary



the character of that part of banking which relates to lending money to clients.

A bank is primarily a commercial institution engaged in trading in order to make profits, but the commodity in which it deals is not the articles of merchandise which money represents ; but money itself.

Bankers' profits are obtained from several sources such as charges upon turnover where no balance is kept at the bank or service fees for keeping a customer's account, or from the interest and profit obtained by using the customer's money where credit balances are maintained, and where no fees are charged.

The most important source of income consists in lending money at a higher rate than is paid for it. So enormous is the amount of money with which banks deal that a comparatively small difference in percentage totals to a vast sum in the course of the year.

Very early in the period during which banking came into general use, as a service for traders,

customers, tempted by the offer of overdrafts, and other accommodation, allowed themselves to be drawn into a state of indebtedness in which they could not protest at any charges that might be made.

But the few banks that were foolish enough to adopt the harsh methods of money-lenders, speedily discovered their error by realizing that those sound or reasonably solvent customers who could escape very quickly did so, while the residuum left to them swiftly became most undesirable clients. In those days any man could start a bank, but only a just man could keep it going.

The story of banking during that period is a story of remarkable integrity and generosity.

But now, as then, banks make their profit by lending money ; and lending money successfully is one of the most difficult and involved operations in the world of commerce.

In this work the transaction has to be viewed from the point of view of the business man who

borrow money ; and every office worker should know something of what is involved in the fact of borrowing.

Now let us take the case of the well controlled branch of an important bank, operating in a busy town or suburb.

The bank manager is anxious to make as much profit as he can for his company, and in doing so to avoid risky trading.

Let us suppose that he has a good number of private customers who keep, on an average, £50 to £100 in the bank and that these accounts are worked free.

In addition there are many depositors who obtain a small percentage upon the money they leave in the bank.

Beyond these are the manufacturers, shopkeepers, and traders. Many of these may have credit balances but the majority use all the money they can get, and some of this is bank money.

Let us presume that the debit and credit totals of all the customers of this branch roughly balance each other ; that the branch lends as much money to some local clients as it has deposited by other local clients.

The manager can see in the condition of his own branch the sources of profits and causes of expenditure that affect banking as a whole.

The charges of a bank for lending money would be held to be absurdly low, if they were measured by a money-lender's test ; but no one knows better than a banker how those small percentages earn a very large aggregate profit when they are calculated on huge sums. One per cent on a million of money is £10,000.

The office worker should understand something about the ways in which banks lend money to business men.

Bills of Exchange and Promissory Notes

The form and rules relating to Bills of Exchange and Promissory Notes are dealt with in a later chapter. In this place we simply deal with them as a means by which a bank lends money.

Let us take the case of two firms anxious to do business with each other.

Messrs. Hazeltine & Gibbs are manufacturers of chinaware at Burslem : Messrs. Shenfield & Wake are wholesale china and hardware merchants in Bristol.

Both firms are solvent and make good profits and would like to trade with each other, but

Shenfield and Wake have no capital free for the purpose ; they would require three months credit if they hold a stock of goods and give credit to their own customers.

Messrs. Hazeltine & Gibbs regret that they can only trade with those who pay quickly.

The bank at Burslem comes to the rescue.

Mr. Hazeltine sees the manager and explains the position. He is known as a sound and safe trader who only supplies solvent buyers.

In effect the bank manager says to Mr. Hazeltine : " If your customers in Bristol will promise to pay you £100 in three months time, we will lend you that £100 at once, but, of course, we shall charge you interest."

Now we see how it works out—

The two firms are able to trade with each other. The customer obtains his credit and has time to turn over his money ; the manufacturer is paid for his goods at once ; and the bank has two securities for the debt, because if the Bristol firm does not pay the bill when it is due, then the chinaware manufacturers will do so.

We use the example of a single loan on a single bill. But supposing that instead of borrowing upon this one transaction, Messrs. Hazeltine & Gibbs have hundreds of customers, most of whom pay quickly, and among whom are a few who require credit on bills, the case becomes more typical.

When a bank discounts a firm's bills, or, in other words, lends that firm money on the promises of its customers to pay in one, two, or three months' time, then the bank becomes very deeply interested in knowing how that firm does its business, and what class of customers it supplies with goods.

It is not sufficient for the manager to be satisfied in the first place that the business is being soundly conducted and that a solid type of customer is supplied.

He must be watching all the time in order to be sure that this satisfactory state of things is continued.

This is why the firm, that uses its customers' bills as a means of borrowing money, dislikes above all things any carelessness about the provision that the bills shall be duly paid when they are presented.

A firm that is constantly discounting its customers' Bills of Exchange may occasionally find that one of them has come back unprovided for. In such a case the bank would raise little protest, because the incident would be exceptional.

But should a firm be constantly experiencing this kind of trouble, the bank will naturally show a growing reluctance in lending money upon such paper.

Hence it will be seen that the trader who borrows money from the bank on Bills of Exchange should be in a position to satisfy the lenders on two important points.

1. That his own business methods are sound and likely to result in his obtaining reasonable profits; and

2. That he uses discrimination in giving credit, and is not likely to be tempted to sell goods to men of straw, any time he wants a few hundred pounds of ready money.

Although the above illustration of the use of trade Bills of Exchange has been used, it should be stated that in some trades where they were once rather frequently used, they are not now so common.

The opinion is growing up, in some retail and wholesale trades, that the trader should be in possession of sufficient capital to cover his stock and book debts, and that if he trades beyond such capital, he is beginning to trade dangerously.

One advantage of the knowledge of the inner working of Bills of Exchange to the ordinary office worker is that an occasion sometimes happens when he may be able to advise his firm in any case where action is important.

Overdraft on Security

Another way by which banks lend money to clients is by an overdraft on security.

Running a business on overdraft is by no means an objectionable method, nor is there any discredit in owing money to the bank in such conditions. It is a commercial method and usually a very sound one. Let us take the case of a trader who always pays cash for his goods.

Let us suppose that there are two heavy seasons for buying, and that in the spring and autumn he buys about £5,000 worth of goods, paying cash for them and gradually seeing the money return to him during the subsequent five or six months.

If such a man keeps a cash balance at his bank sufficiently large to cover his transactions, it will mean that during a large part of the year

a great deal of money will be lying in his current account earning nothing and the interest constituting a free gift to the bank.

But if that man invests the money in some sound manner, such as to buy his own business premises and lodges the title deeds at the bank, borrowing against the security, he would save every way.

He would only be charged interest on the amount he was actually using plus a small charge on turnover.

The method, too, might be an advantage in giving him a surer hold upon his own business premises and, if his name were good, he would have little difficulty in getting the full amount of overdraft necessary during the few weeks when the debt was at its highest.

An overdraft is a loan upon security; that is to say, the customer of the bank is allowed to overdraw up to an agreed amount upon the security which he is able to lodge.

Apparently such an arrangement appears to be very simple, but in actual working of the account it may be necessary for many interviews to take place and for the whole subject to come up for constant review.

Thus a trader such as the one we have indicated above, buys his goods at two important periods of the year, and at such times as his heavy payments are made exercises his overdraft powers to the agreed limit.

Now let us suppose that such a man, at a time when his overdraft is at its highest point, is offered a large parcel of goods upon which he knows he will make a substantial profit, and goes to consult his banker about it.

"You have advanced me £4,000," he says, "but the security is worth more than that. I want another £1,000."

He explains the circumstances. He shows that following its usual course £1,000 or more will be paid in during the next few weeks, and that though there may not be quite sufficient security for the full amount, the circumstances warrant the purchase.

Let us suppose the money is advanced and duly returned; the firm becomes more and more trusted, but also more and more inclined to take full advantage of the confidence.

CHAPTER XIII

RECORDING CASH

THE Cash Book is one of the books of prime or original entry, and its function is to record both receipts and payments of money, together with any allowances of cash discount in connection with such financial transactions, and also periodically to show the balance of cash in hand and at bank.

Although often classed as a subsidiary book, it is really a part of the principal book itself, since it is nothing more or less than the Cash Account and the Bank Account taken out of the Ledger and bound up separately for the sake of immediate greater convenience in writing up, and also for the sake of easier and quicker reference subsequently.

That the Cash and Bank Accounts in the Cash Book are an integral part of the double entry, is plainly shown by the fact that no Trial Balance or Balance Sheet can be made to agree unless the Cash and Bank balances from the Cash Book have been duly included in them.

The greater convenience and readier reference consist in having the three accounts of Cash, Bank, and Discount all on one page, instead of on three separate Ledger folios, which might be adjacent pages, but which might, on the other hand, be widely separated pages.

When cheques first came into use, a separate book was kept for Bank transactions; but the frequent transfers from Cash to Bank, and from Bank to Cash, led eventually to the Bank Account being incorporated in the ordinary Cash Book.

The Cash Book occupies an important double position; it is totalled so as to make a Ledger Account of Cash; it is also the source of original entries which are posted to the Ledger Accounts of the different customers.

The clerk who uses this book will see the double entry performed thus: (1) a debit is made in the Cash Account; and (2) this original entry is posted to the credit of a customer's account.

This does not end the great value of the Cash Book, for the same book has been made to answer the purpose of another very important Ledger Account in the same book.

This is the record of transactions with the bank.

In a business of any size these transactions are very numerous, so that clearly it is sound policy to prevent any needless doubling of work.

And this is very cleverly done in the modern scientifically planned Cash Book. An extra set of cash columns is ruled in the Cash Book and in these all transactions with the bank are duly recorded.

If the cashier receives, say, £150 during the day in the form of cheques, cash, or other security, his Cash Book must reveal, not only from whom he has received it, but what he has done with the money.

The tendency of modern book-keeping is to pass all money through the bank. In many offices the amount received during the twenty-four hours would exactly agree with the bank lodgments of the same period.

Where this is strictly done, and where any money kept in the offices for emergencies is a balance brought forward, then the two columns which record cash received and cash paid into the bank agree with each other except for the fixed balance which the cashier is authorized to retain.

In the specimen copy of the Cash Book shown on page 136 the two columns referred to are the second and third on the debit side, one of which is headed "Office Cash" and the other "Bank."

There is a great advantage in these two sets of cash columns being side by side.

The advantage consists in the ease with which the entry in the third column can be checked as a total of a number of entries immediately preceeding it in the second column.

Forms of Cash Book

As there are several forms of Cash Book in use, it is desirable to deal with some of these before further proceeding to the more useful and now more generally used Cash Book on page 137.

One-column Cash Book

In using a simple form of ruling such as Example 1, shown on page 135, the accountant is limited in his scope and cannot do much more than keep a precise record of the cash that passes through his hands or through the bank. Other

EXAMPLE 1. (ONE COLUMN)

Dr.		CASH		CASH BOOK			CONTRA		Cr.		
Date	Receipts	Ledger Folio	Cash or Bank			Date	Payments	Ledger Folio	Cash or Bank		
19..			£	s.	d.	19..			£	s	d

books or Ledger Accounts would be needed to supplement such a Cash Book, which would not be necessary were there additional cash columns.

But even such a book ruled as shown above serves a useful purpose in a restricted kind of business, or where cash transactions are few, and where all that is needed is a simple, clear record of those transactions as they occur.

The above ruling enables the user to keep a check upon the cash he has in hand, and the book forms a useful place of original entry for items that can be posted to Ledger Accounts at convenience.

Cash Book with Discount Columns

We now take a step forward and come to another kind of Cash Book somewhat similar to the first and capable of similar use for dealing with actual cash transactions, but possessing two extra sets of columns for discounts.

When a customer's account is, say, £20, and he is allowed a discount of 5 per cent, his actual payment is £19, and the Cash Book is primarily intended as the account in which that £19 shall be dealt with.

But as the other £1 must be credited to the customer's account, it must have some place of

original entry, or must be treated in some form that will enable the books to be balanced and to be true to the principle of double-entry.

When it is decided that a Discount column shall be used, where can there be found a more suitable place than in the Cash Book? The two items "Cash Received" and "Discount Allowed" can be posted at the same time, and from one book instead of two.

Posting Discounts to Ledger

In posting cash and discounts to the Ledger, some accountants post the items separately, "To" or "By Cash"; and "To" or "By Discount," others add the discount to the money, and post both in one amount, "To Cash & Dis.," or "By Cash & Dis.," as the case may be. The argument advanced in support of the latter practice is that it saves time, only one entry being made instead of two.

On the other hand, however, there is the risk of error when making the addition. It is also well known that auditors prefer the amounts to be entered separately, as it saves them the trouble of making an addition each time, besides being far easier to see how an account was settled.

EXAMPLE 2. (TWO COLUMNS)

Dr.		CASH		CASH BOOK		CONTRA		Cr.	
Date	Receipts	Led. Fol.	Dis-count	Cash or Bank	Date	Payments	Led. Fol.	Dis-count	Cash or Bank
19..			£ s. d.	£ s. d.	19..			£ s. d.	£ s. d.

Let us now deal with the Cash Book of a firm that works upon the method of retaining a cash balance in its safe and of lodging all cheques and money and postal orders in the bank.

Worked Example

The following cash transactions of a trader for the month of March will now be entered in a three-column Cash Book, and posted to Ledger, in order to illustrate clearly the book-keeping in connection with receipts and payments of money, allowances of Discount, and transfers to and from the Bank Account.

19..		£	s.	d.
Mar. 1.	Commenced business with cash	1000	-	-
	Paid into bank	900	-	-
	Bank charged for cheque book (100 cheques)		16	8
	Bought furniture for cash	65	15	6
	Paid for fixtures in cash	25	10	-
2.	Received from C. Beagle, cash	19	10	-
	Discount allowed		10	-
3.	Paid G. Simpson by cheque	57	9	6
	Discount allowed		3	-
4.	Paid into bank	15	-	-
5.	Ready money sales to date	2	10	6
6.	Paid Eagle & Co., cash	3	17	2
	Drew cheque for wages	25	14	6
8.	Drew cheque for office cash	10	-	-
9.	Received from R. Phillips, cheque	76	13	8
10.	Paid into bank	76	13	8

19..		£	s.	d.
Mar. 11.	Drew cheque for self	20	-	-
13.	Drew cheque for wages	25	14	6
15.	Received from Checkers & Son, money order	20	16	4
	Received from R. Oliver, cheque	142	19	6
	Discount allowed		7	10
	Paid into bank	163	15	10
17.	Paid the General Stores, cheque	122	10	6
	Discount allowed		3	2
18.	Paid rates in cash	10	5	3
20.	Bought goods for cheque	36	10	6
	Drew cheque for wages	25	14	6
22.	Ready money sales to date	16	12	8
24.	Received from Ramblers, Ltd., cheque on account	50	-	-
	Received from Easton Bros., cheque	25	13	4
	Paid into bank	75	13	4
27.	Drew cheque for wages	25	14	6
29.	Paid for stationery in cash	1	3	10
30.	Received from M. Butler, cheque	29	16	4
	Received from R. Chandler, cheque	36	11	2
	Discount allowed		1	18
	Paid trade expenses in cash	6	8	11
	Paid into bank	66	7	6
31.	Received from Reeve & Co.	22	19	7
	Paid Wallis, Son & Co., cheque	55	11	10
	Paid V. Lambert, cheque	27	16	5
	Discount allowed		1	9
	Ready money sales to date	12	11	4
	Paid into bank	35	10	11
	Received from Chipper & Cook, cash	4	4	8

The Cash Book is written up as follows—

67 Dr.						CASH BOOK						Cr. 67					
Date	Receipts	Led. Fol.	Dis-count	Office Cash	Bank	Date	Payments	Led. Fol.	Dis-count	Office Cash	Bank	Date	Payments	Led. Fol.	Dis-count	Office Cash	Bank
19..			£ s d	£ s d	£ s d	19..			£ s d	£ s d	£ s d	19..			£ s d	£ s d	£ s d
Mar. 1	To Capital	21		1000	-	Mar. 1	By Bank	c		900	-	Mar. 1	By Bank	c			
2	Cash	c					Office Expenses	31					Office Expenses	31			16 8
4	Beagle, C.	81	10	19	10		Furniture	32		65	15 6		Furniture	32			
5	Cash Sales	39		2	10 6	3	Fixtures	32		25	10		Fixtures	32			
8	Bank	c		10	-	4	Simpson, G.	51	3	6			Simpson, G.	51			57 9 6
9	Phillips, R.	82		76	13 8	6	Bank	c		15	-		Bank	c			
10	Cash	c				8	Eagle & Co.	52		3	17 2		Eagle & Co.	52			25 14 6
15	Checkers & Son	83		20	16 4	11	Wages	33					Wages	33			10 - -
	Oliver, R.	84	7	142	19 6	10	Cash	c					Cash	c			
	Cash	c				13	Bank	c		76	13 8		Bank	c			
22	Cash Sales	39		16	12 8	15	Drawing A/c	22					Drawing A/c	22			20 - -
24	Ramblers, Ltd.	85		50	-	17	Wages	33					Wages	33			25 14 6
	Easton Bros.	86		25	13 4	18	Bank	c		163	15 10		Bank	c			122 10 6
30	Butler, M.	87		29	16 4	20	General Stores	53	3	2	10		General Stores	53			
	Chandler, R.	88	1	36	11 2	24	Rates	34		10	5 3		Rates	34			36 10 6
	Cash	c				27	Purchases	35					Purchases	35			25 14 6
31	Reeve & Co.	81		22	19 7	29	Wages	33					Wages	33			
	Cash Sales	39		12	11 4	30	Bank	c		75	13 4		Bank	c			25 14 6
	Bank	c				31	Wages	33					Wages	33			
	Chipper & Cook	90		4	4 8		Stationery	36		1	3 10		Stationery	36			27 16 5
							Trade Expenses	37		6	8 11		Trade Expenses	37			
							Bank	c		66	7 6		Bank	c			
							Wallis, Son & Co.	54					Wallis, Son & Co.	54			55 11 10
							Lambert, V.	55	1	9	3		Lambert, V.	55			27 16 5
							Bank	c		35	10 11		Bank	c			
							Bank Charges	38					Bank Charges	38			2 6
							Balance c/d			24	17 2		Balance c/d				899 5 4
Apr. 1	To Balance b/d	40		£9 19	1470 19 1			41		£7 12 7	1470 19 1					£333 1 3	£333 1 3

Notes on the Transactions

Now let us compare the list of transactions with the entries in the Cash Book, in order to understand the way in which the cashier has treated each item.

Many of them are of similar character, and to deal with one of them is to form a pattern for dealing with others of the same kind.

The first item shows that the business was commenced with £1,000 cash, of which £100 was retained for cash payments and the other £900 was paid into the Bank.

When the Bank Account was opened the trader asked for and received a cheque book containing 100 cheque forms, on each of which is a 2d. stamp.

Hence the first three transactions with which he must deal necessitate four entries.

He must debit Office Cash with the £1,000 capital (2nd column left-hand page).

He must credit Office Cash with £900 which he paid into the bank (2nd column right-hand page.)

He must debit the bank with this £900 (3rd column left-hand page).

He must credit the Bank with 16s. 8d. for stamps on the cheques (3rd column right-hand page).

He next deals with the purchase of office furniture for cash, £65 15s. 6d, by crediting Office Cash this amount (2nd column right-hand page).

In entering the payment of £25 10s. for fixtures, he credits Office Cash in the same way.

At this point if our trader had struck a balance of his office cash he would have found that he had to account for a balance of cash in hand £8 14s. 6d. which should agree with the actual money in the safe.

This apparently was not a sufficiently large reserve, so the next day, when Mr. C. Beagle paid him £19 10s., he retained it in the safe until the 4th of the month, when he paid £15 into the bank.

Mr. C. Beagle's account was £20, but 10s. was allowed him in discount and, as already explained, in order that all discounts shall be properly dealt with, this is entered in a side column marked "Discounts," which is not really a part of the Cash Book at all, but is kept in the Cash Book because it is the most convenient place for it.

On the third of the month our trader paid an account to Mr. G. Simpson of £60 10s.,

deducting 5 per cent discount. The payment was made by means of a cheque £57 9s. 6d.

This cheque was credited to the Bank, and the discount saved, £3 0s. 6d., appears in the 1st column of the right-hand page.

Most of the remaining transactions are similar to those indicated above. The three exceptions are—

1. Wages. These amount to £25 14s. 6d. each week, and were drawn in lump sums from the bank.

2. Drawings. Our trader required personal money from time to time, and instead of taking this from the safe he withdrew it from the bank. This is a good method to adopt, even when there is only one proprietor of a business.

3. The Bank makes charges of 3d. and 6d. for collecting Scotch and Irish cheques, as explained later on under the heading of "Checking the Bank Account with the Pass Book"; and these are duly credited to its account (3rd column right-hand page).

The following important points should be noted.

"Cross" or "Contra" Entries

Where all receipts, cheques, and paper money and coin, are placed in the Office Cash, the amount accumulated will be beyond the actual requirements of the trader. The excess is then paid into the Bank.

In any case, the cheques, and also the money orders and postal orders if crossed, would have to be paid into Bank; although the coin and bank notes, and the £1 and 10s. Currency notes might be kept for petty disbursements.

This transfer will necessitate an entry on each side of the Cash Book. On the credit side there will be an entry made, "*By Bank*," and the amount placed in the Cash column; on the debit side, an entry will be made, "*To Cash*," and the amount placed in the Bank column.

Again, even where it is usual to retain money in the Cash for spending purposes, e.g. for paying accounts of a small amount, or for making small purchases, or for ordinary Petty Cash payments, there may at times be a shortage in the Office Cash.

In such cases money has to be drawn from the Bank and put back into the Cash. On the credit side of the Cash Book, an entry will be made, "*By Cash*," and the amount placed in the Bank column; on the debit side, an entry

will be made, "*To Bank*," and the amount placed in the Cash column.

Personal Drawings

Where the proprietor of the business draws money for his own private purposes, an entry will be made on the credit side of the Cash Book, "*By Drawing Account*," and the amount entered in the Cash column if coin is taken, and in the Bank column if a cheque is drawn.

Such cheques are usually drawn payable to "*Self*," instead of writing the proprietor's name. They must, however, be endorsed with his name. The proprietor sometimes pays his private bills with the business cheques, and such payments must be similarly charged to his Drawing Account.

Posting Cash Book to the Ledger

It has already been explained that a Cash Book occupies a peculiar position. It is, at the same time, a book of original entry and a part of the Ledger.

Double entry requires that every item shall be entered in the Ledger twice. By accepting the Cash Book itself as part of the Ledger, half of these entries are dispensed with right away, for the moment they are entered in the Cash Book they are, by that very act, posted to the equivalent Ledger Accounts of Cash and Bank.

Then again, as all those transfers of money paid into the Bank from the Cash Account, and money withdrawn from the Bank for the Cash appear in the two columns of the Cash Book, they constitute a double-entry in themselves. Each one is, as it were, posted to the other account on the opposite page, and no further posting is required.

On the left of the first of the three sets of Cash columns is the column for Ledger Folios, and it will be noticed that in some cases, instead of a Ledger Folio number, there appears the letter "*c*" (sometimes written "*c/e*"). These are abbreviations of "*contra*" and "*cross-entry*." Sometimes again the space is simply marked with a tick.

The general rule for posting the Cash Book to the Ledger is to reverse the sides, all the entries on the debit side of the Cash Book being posted to the credit side of the Ledger, and all the entries on the credit side of the Cash Book being posted to the debit side of the Ledger. This is because the Cash Book is really two Ledger Accounts.

Since Cash Account and Bank Account are

both *debtor* to all the accounts mentioned on the debit side, the accounts themselves must be *creditor*; and since Cash Account and Bank Account are *creditor* by all the accounts stated on the credit side, the accounts themselves must be *debtor*.

The items on the debit side are posted to their Ledger Accounts, "*By Cash*" and, on the line underneath, "*By Discount*," or more usually "*By Dis.*," if any.

The items on the credit side are posted to their Ledger Accounts, "*To Cash*" and "*To Dis.*," if any. Some accountants prefer to post Bank items "*To Cheque*" and "*By Cheque*" respectively; others prefer to post them "*To Bank*" and "*By Bank*," which is theoretically more correct.

The totals of the Discount columns are posted to the Discount Accounts in the Ledger as they stand in the Cash Book, that is, without being reversed. This is not a violation of the above rule, but only because the discounts are already reversed, being theoretically on their wrong sides in the Cash Book.

When we receive payment of an account of, say, £20, less 5 per cent, we enter both the £19 cash and also the £1 discount on the debit side of the Cash Book. But the discount in connection with the receipt is really a payment back by us to our customer.

The receipt of the £19 is, therefore, only the net equivalent of the gross receipt of £20 from our customer and the payment back again to him of the £1 discount. The £19, being a receipt, is rightly entered on the debit side of the Cash Book; the £1 discount, being really a payment back again, should be entered on the credit side of the Cash Book.

For the sake of convenience, however, the discounts are always entered on the same side, and also on the same line, as the receipts and payments to which they actually belong.

The discount columns are thus regarded as *memorandum* columns, designed merely to afford such convenience. When, therefore, we come to post the discount totals, being already reversed, they do not require reversing again, and are consequently posted as they stand in the Cash Book, the total on the debit side to the debit of the Ledger, and the total on the credit side to the credit of the Ledger.

Treatment of Discount

Again, suppose we have on the debit side of our Cash Book an entry like the following.

RECORDING CASH

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82	Dr.	R. PHILLIPS										Cr.	82
						19.. Mar. 9	By Cash	67		£ 76	s. 13	d. 8	
83	Dr.	CHECKERS & SON										Cr.	83
						19.. Mar. 15	By Cash	67		£ 20	s. 16	d. 4	
84	Dr.	R. OLIVER										Cr.	84
						19.. Mar. 15	By Cash ,, Discount	67 67		£ 142 7	s. 19 10	d. 6 6	
85	Dr.	RAMBLERS, LTD.										Cr.	85
						19.. Mar. 24	By Cash	67		£ 50	s. —	d. —	
86	Dr.	EASTON BROS.										Cr.	86
						19.. Mar. 24	By Cash	67		£ 25	s. 13	d. 4	
87	Dr.	M. BUTLER										Cr.	87
						19.. Mar. 30	By Cash	67		£ 29	s. 16	d. 4	
88	Dr.	R. CHANDLER										Cr.	88
						19.. Mar. 30	By Cash ,, Discount	67 67		£ 36 1	s. 11 18	d. 2 6	
89	Dr.	REEVE & CO.										Cr.	89
						19.. Mar. 31	By Cash	67		£ 22	s. 19	d. 7	
90	Dr.	CHIPPER & COOK										Cr.	90
						19.. Mar. 31	By Cash	67		£ 4	s. 4	d. 8	

BOUGHT OR CREDITORS LEDGER

51	Dr.	G. SIMPSON										Cr.	51
19..						£	s.	d.					
Mar. 3	To Cash	67				57	9	6					
	„ Discount	67				3	—	6					

52 Dr.		EAGLE & CO.										Cr. 52	
19..	Mar. 6	To Cash	67	£	s.	d.							
				3	17	2							

53 Dr.		THE GENERAL STORES										Cr. 53	
19	Mar. 17	To Cash	67	£	s.	d.							
		„ Discount	67	122	10	6							
				3	24	10							

54 Dr.		WALLIS, SON & CO.										Cr. 54	
19..	Mar. 31	To Cash	67	£	s.	d.							
				55	11	10							

55 Dr.		V. LAMBERT										Cr. 55	
19..	Mar. 31	To Cash	67	£	s.	d.							
		„ Discount	67	27	16	5							
				1	9	3							

GENERAL OR IMPERSONAL LEDGER

31 Dr.		OFFICE EXPENSES										Cr. 31	
19..	Mar. 1	To Cash	67	£	s.	d.							
					16	8							

32 Dr.		FURNITURE AND FIXTURES										Cr. 32	
19..	Mar. 1	To Cash	67	£	s.	d.							
		„ „	67	65	15	6							
				25	10	—							

33 Dr.		WAGES										Cr. 33	
19..	Mar. 6	To Cash	67	£	s.	d.							
	13	„ „	67	25	14	6							
	20	„ „	67	25	14	6							
	27	„ „	67	25	14	6							

34 Dr.		RENT, RATES, AND TAXES										Cr. 34	
19..	Mar. 18	To Cash	67	£	s.	d.							
				10	5	3							

35 Dr.		PURCHASES										Cr. 35	
19..	Mar. 20	To Cash	67	£	s.	d.							
				36	10	6							

36 Dr.		PRINTING AND STATIONERY										Cr. 36	
19..	Mar. 29	To Cash	67	£	s.	d.							
				1	3	10							

37	Dr	TRADE EXPENSES										Cr.	37
19..													
Mar. 30	To Cash	67	£	s.	d.								
			6	8	11								
38	Dr.	BANK CHARGES										Cr.	38
19..													
Mar. 31	To Cash	67	£	s.	d.								
				2	6								
39	Dr.	CASH SALES										Cr.	39
19..													
Mar. 5	To Cash	67	£	s.	d.								
22	" "	67		2	10	6							
31	" "	67		16	12	8							
		67		12	11	4							
40	Dr	DISCOUNTS ALLOWED										Cr.	40
19..													
Mar. 31	To Sundries	67	£	s.	d.								
			9	19	-								
41	Dr	DISCOUNTS RECEIVED										Cr.	41
						19..							
						Mar. 31	By Sundries	67	£	s.	d.		
									7	12	7		
PRIVATE LEDGER													
21	Dr.	CAPITAL ACCOUNT										Cr.	21
						19..							
						Mar. 1	By Cash	67	£	s.	d.		
									1000	-	-		
22	Dr.	DRAWING ACCOUNT										Cr.	22
19..													
Mar. 11	To Cash	67	£	s.	d.								
			20	-	-								

Checking the Bank Account

The Bank Account should be checked regularly—daily, weekly, fortnightly, or at least monthly, according to the magnitude of the account or the multiplicity of the transactions. Thus, it will be equally necessary whether the cheques are relatively small in number but for large amounts, or fairly small in amount but rather large numerically.

The Pass Book must be obtained from the bank, and we will assume, in this case, that it shows a balance of £893 6s. 6d.

These figures do not agree with the Bank balance as shown in the Cash Book. The two records of the Bank Account must, therefore, be carefully examined.

The items in the Pass Book must be compared with those in the Bank column of the Cash Book and ticked if correct. When this operation is finished, the cashier or accountant, or whoever is checking the account, may find in the Pass Book some small items of 3d. or 6d. not ticked. These will probably be charges for collecting Scotch and Irish cheques, debit slips for which charges will be found in the pocket of the Pass Book.

These must be added up and the total entered in the Cash Book, Bank column, on the credit side, "*By Bank Charges as per Pass Book*"; in the worked example they have been assumed to amount to 2s. 6d. If interest has been allowed on the current account, an entry must be made

on the debit side of the Cash Book, "*To Bank Interest as per Pass Book*," and the amount placed in the Bank column. This interest will be posted to the credit of the Interest Received Account.

Likewise, if commission has been charged for keeping the current account, an entry must be made on the credit side of the Cash Book "*By Bank Commission as per Pass Book*," and the amount placed in the Bank column. This commission will be posted to the debit of the Bank Charges Account.

After making sure that all the items in the Pass Book are ticked, the next thing will be to look down the Bank column of the Cash Book. Here, also, some items will probably be found which have not been ticked.

We will assume, in the present case, that they are as stated hereunder. On the debit side: *Butler* £29 16s. 4d., *Chandler* £36 11s. 2d., *Reeve & Co.* £22 19s. 7d.; these were cheques paid in by us at the end of March, but which were not cleared by the Bank until the next month.

It often takes two or three days to clear country cheques. On the credit side: *Wallis, Son & Co.* £55 11s. 10d., *Lambert* £27 16s. 5d.; these were cheques paid away by us at the end of March, but which were not presented to our Bank for payment until the following month.

These unticked items form the material for a Reconciliation Statement or Account. This is constructed in order to make the Bank balance in the Pass Book agree with the Bank balance in the Cash Book, as follows—

RECONCILIATION STATEMENT

	£	s.	d.	£	s.	d.
Bank Balance as per Pass Book				893	6	6
Add Cheques paid in, not yet cleared—						
Butler, M.	29	16	4			
Chandler, R.	36	11	2			
Reeve & Co.	22	19	7			
				89	7	1
				982	13	7
Deduct Cheques paid away, not yet cashed—						
Wallis, Son & Co.	55	11	10			
Lambert, V.	27	16	5			
				83	8	3
Bank Balance as per Cash Book				£899	5	4

At each periodical checking, the Reconciliation Statement is usually copied into the Cash Book as a permanent record.

Balancing the Cash Book

The Cash and Bank columns are totalled in pencil daily, in order to disclose their respective balances. Periodically, however, as experience or convenience suggests, or the exigencies of the business dictate, but at least monthly, the balances are actually entered in ink, the sides of the Cash Book ruled off, the totals filled in, and the balances transferred to a new period.

Against the balances it is usual to write the contractions c/d (carried down) and b/d (brought down), when the new period begins lower down on the same page; and c/f (carried forward) and b/f (brought forward), when the new period begins on the next or a subsequent page.

The object of the periodical balancing is to reduce the clerical labour involved in constantly carrying forward large amounts on each side of the Cash Book, and thereby, also, to lessen the natural risk of error attending the constant transference of totals.

Where cheques received from customers are endorsed on to creditors, such cheques must, of course, be entered in the Cash column, both when received and also when re-issued.

The endorsing on to creditors of cheques received from customers is, however, not so prevalent in England as on the Continent, where a cheque sometimes contains as many endorsements as a bill of exchange.

Payments made by cheque must always be entered in the Bank column, as they are payable out of the trader's Bank money and not out of his Office Cash.

The "Bank" Cash Book

The "Bank" Cash Book is a type of Cash Book less extensively used than the former types shown, but one that is growing rapidly in favour. It is not really a new form of Cash Book, but only the ordinary three-column Cash Book used in a slightly different way, the money columns on each side being headed "Discount," "Details," and "Bank" respectively.

It is specially adapted for use in conjunction with a stricter organization of the finance department. Every day the money received, whether cheques, bank notes, money orders, postal orders, treasury notes, or coin has to be paid into the bank intact, no disbursements of any kind whatever being allowed to be made out of such receipts.

All payments, large or small, except Petty Cash payments, have to be made by cheque. The Petty Cash is kept quite distinct, being

financed by a separate cheque, while a separate book is provided in which to record all petty expenditure.

Printed and numbered carbon-copy receipts are issued for all money received. One receipt book contains stamped receipt forms for all amounts of £2 and over, while the other receipt book contains unstamped receipt forms. No other kind of receipt is recognized by the firm.

The debit side of the Cash Book is written up daily from the carbon-copy receipt books,

Not only does the system of the "Bank" Cash Book tighten up the administration of the Cash Department and provide an effective check on the cashier himself, but it also greatly facilitates the work of the auditors, who consequently advocate and even press for its adoption.

Example

The following is a specimen ruling of the Cash Book, and some *pro forma* entries have been made in order to illustrate its use—

Dr. BANK CASH BOOK Cr.											
Date	Receipts	Led. Fol.	Dis-count	Details	Bank	Date	Payments	Led. Fol.	Dis-count	Details	Bank
19..			£ s d	£ s d	£ s d	19..			£ s d	£ s d	£ s d
Mar 1	To Balance	.			876 15 10	Mar 1	By Petty Cash	.			20 - -
	„ Smith, G	.	2 18 9	55 16 5			„ Robb, T.	.			120 14 9
	„ Brown, F	.		150 - -			„ Purchases	.	3 1 11		27 16 10
	„ Green, V	.	3 5 6	62 4 9			„ Wages	.		46 18 6	
	„ Long, H	.	4 6 11	82 11 7			„ Drawings	.	30 - -		
	„ Brett, L.	.	1 17 10	35 18 10			„ Stationery	.			76 18 6
	„ Roper, M	.		30 - -	4 16 11 7		„ Rates	.			4 2 6

an additional column being often provided on the debit side for the purpose of recording in the Cash Book itself the number of each customer's receipt. The amounts are all entered in the "Details" column.

The credit side of the Cash Book is written up daily from the particulars entered on the counterfoils of the cheques paid away, an extra column being often provided on the credit side so as to record in the Cash Book itself the number of each creditor's cheque. The amounts are entered direct in the Bank column.

Sometimes, however, a cheque is drawn for more than one purpose, as, for instance, a cheque drawn for wages and also for personal requirements. In such cases, the separate amounts are entered in the "Details" column, and only the total extended into the Bank column.

In the "Bank" type of Cash Book there are no "transfers" or "cross entries." When money is paid into the Bank, the total is merely extended into the Bank column on the debit side.

Again, when a cheque is drawn for Petty Cash, an entry is simply made on the credit side of the Cash Book, Bank column, "By Petty Cash," the contra entry for this appearing, not on the debit side of this Cash Book, but on the debit side of an entirely separate Petty Cash Book.

Now let us take cases in which difficulties arise and need special entries or special treatment.

Wrong Discount Deducted

Discount is often a troublesome item in business. Debtors frequently deduct more discount than they are really entitled to take. Some items on a statement may be net, being either specially quoted prices, or old items on which discount rights have lapsed, but debtors erroneously deduct discount on the full amount of the account.

Again, they mistakenly deduct, say, 5 per cent when the rate allowed is only $2\frac{1}{2}$ per cent.

These mistakes cause correspondence in order to draw the debtor's attention to the error. They also cause a receipt to be given on account instead of in full settlement, and often entail the carrying forward to the next account of amounts which should be settled in the current period.

The accountant responsible for keeping the Cash Book and balancing the Ledgers, is frequently empowered to write to customers about any mistakes in settlement of accounts.

Where a customer deducts discount to which he is not entitled it is very proper to draw his attention to the fact, and even to ask for an additional remittance.

Such a man, receiving such a letter, would

probably accept the debit for the difference, adjust his own Ledger, and resolve to include the amount in his next remittance.

Where, however, no rule to the contrary exists, and the accountant has a free hand, he acts wisely in limiting his letters to the first, and should that fail to bring the money, he should carry forward the balance to the next account.

This point is emphasized here as it is probable that satisfactory and workable accounts might be closed through this one mistaken policy about discounts.

Discount Refunded Out of Money Received

And now to deal with another of these difficult kinds of entry.

Debtors sometimes pay the full amount of their account, omitting to deduct discount, either through inadvertence, or through thinking the account was net. This mistake gives as much, if not more, trouble than the others; for it means putting adjusting entries through the books.

Thus, suppose a debtor named A. Brown, who owes us £20 subject to a cash discount of 5 per cent, forgets to deduct the discount, and sends us a cheque for the full £20, subsequently asking for the refund of the discount. Our Cash Book would appear thus—

Dr.		CASH BOOK										Cr.						
Receipts		Dis- count		Cash		Bank		Payments		Dis- count		Cash		Bank				
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		
To Brown, A. . .					20	-	-				By Brown, A. . .					1	-	-

and Brown's account in the Ledger would appear as under—

Dr.				A. BROWN										Cr.		
				£	s.	d.					£	s.	d.			
19..							19..									
Feb. 20	To Goods .	.	86	20	-	-	Mar. 21	By Cash .	.	.	69	20	-			
Mar. 23	„ Cash .	.	69	1	-	-										

It is obvious from the above that a Journal entry is required, debiting Discount with £1 and crediting A. Brown with £1, in order to close the personal account and ensure the amount appearing in the Discounts Allowed Account.

The above illustration shows clearly how

very advantageous and convenient is the modern business practice of accepting only the net amount and recording the Cash and Discount alongside each other in the Cash Book.

It saves the double process of receiving the gross amount, and then paying back the discount; and it also obviates the necessity for a Journal entry to pass the discount through the Discount Account and close the personal account.

As a matter of fact, however, refunds, as discount, of parts of amounts actually received are necessary at times, as debtors often obstinately refuse to agree to such amounts being carried forward to the credit of their next account, and insist on repayment.

Where the amounts in question are large, they are paid back by cheque through the General Cash Book, but where the amounts are smaller than £1 they are generally passed through the Petty Cash Book. A Journal entry similar to the one mentioned above will always be required, whether the amount is actually paid back or deducted from the next account.

The above procedure will also apply to those cases where a debtor claims and is allowed an *extra* discount, which is sometimes placed to his credit, and sometimes actually paid him.

Bank Overdraft and Its Effect on the Accounting

For a Bank Overdraft no entry is necessary

in the Cash Book, as no money is actually received from the banker. In the case of a Bank

Loan, the trader receives a definite sum; but, in the case of an overdraft, he is merely allowed to overdraw his current account up to the agreed amount.

Before balancing the Cash Book, an entry must be made on the credit side, Bank column,

"By Interest on Overdraft," the amount being obtained from the Pass Book; this amount will be posted to the debit of an Interest Paid Account, which will be closed finally to the debit of Profit and Loss Account.

If when the Cash Book is balanced, the overdraft is not paid off, the Bank balance will be entered in the Cash Book on the *debit* side, instead of the credit side, "*To Balance (Overdraft)*," and will be brought down on the *credit* side instead of the debit side, "*By Balance (Overdraft)*."

If the overdraft still exists at balancing time, the Bank balance must be entered in the Trial Balance in the *credit* column instead of in the *debit* column. It must also be entered in the Balance Sheet on the *liabilities* side instead of the assets side, and must be separately stated as "*Bank Overdraft*."

In addition to the above changes, a Bank Overdraft will also change the form of the Reconciliation Statement, as the cheques paid in tend to reduce the overdraft, and must, therefore, be *deducted*, not added as is usual; while the cheques paid away tend to augment the overdraft, and must, therefore, be *added*, not deducted as is usually done.

Unless these changes are made, the Bank balance as shown by the Pass Book cannot be made to agree with the Bank balance as shown by the Cash Book.

Thus, suppose in the previous example, under paragraph entitled "Checking the Bank Balance," that the Bank Pass Book, instead of showing a balance in our favour, showed an overdraft of £472 18s. 8d., and that our Cash Book showed (after adjusting the above-mentioned interest) a Bank overdraft of £466 19s. 10d.,

RECONCILIATION STATEMENT

	£	s.	d.	£	s.	d.
Bank Overdraft as per Pass Book				472	18	8
Deduct Cheques paid in, not yet cleared—						
Butler, M.	29	16	4			
Chandler, R.	36	11	2			
Reeve & Co.	22	19	7			
				89	7	1
Add Cheques paid away, not yet cashed—				383	11	7
Wallis, Son & Co.	55	11	10			
Lambert, V.	27	16	5			
				83	8	3
Bank Overdraft as per Cash Book				466	19	10

through the same items as before being outstanding; then the Reconciliation Statement would appear as shown in the previous column.

When sufficient cheques and money have been paid in to wipe out the overdraft, and turn the adverse balance into a balance in hand, the balancing and accounting will then proceed on normal lines.

Transfers Between Current Account and Deposit Account

The Bank Deposit Account, as explained in a previous chapter, represents money which has been lent to the banker at interest. This account is sometimes kept in the Cash Book itself, in a separate column. When money is transferred (a) from Current Account to Deposit Account, an entry must be made in the Cash Book, debiting the Deposit Account and crediting the Current Account.

When money is transferred (b) from the Deposit Account (due notice having been given) to the Current Account, an entry must be made debiting the Current Account and crediting the Deposit Account.

Where (c) Interest on the deposit is credited to the Current Account, an entry is made debiting the Current Account, "*To Interest on Deposit*," the amount of such interest being obtained from the Bank Pass Book. The entries for (a), (b), (c) are shown in the illustration at the top of page 148 (Date, Discount, and Cash columns being omitted to save space).

The Interest on the Deposit will be posted to the credit of an Interest Received Account, which, at balancing time, will be finally closed to the credit of the Profit and Loss Account as one of the gains.

Where a separate Ledger Account is opened for the Deposit Account, the Cash Book will contain only the Bank Current Account; and the transfers will consequently appear, not on each side of the Cash Book as before, but only on one side.

Thus (a) when money is taken from the Current Account and added to the Deposit Account, an entry will be made only on the credit side, "*By Deposit Account*"; and (b) when money is withdrawn from the Deposit Account for the Current Account, an entry will be made only on the debit side, "*To Deposit Account*."

These are the only entries that will be made in the Cash Book, but they will, of course, be posted to the Deposit Account in the Ledger,

<i>Dr.</i>		CASH BOOK										<i>Cr.</i>			
Receipts		BANK						Payments		BANK					
		Current Account			Deposit Account					Current Account			Deposit Account		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
To Balance		2000	—	—	1500	—	—								
(a) To Current A/c (transfer)					500	—	—	(a) By Deposit A/c (transfer)		500	—	—			
(b) To Deposit A/c (transfer)		500	—	—				(b) By Current A/c (transfer)					500	—	—
(c) To Interest or Deposit		75	—	—											

in order to complete the double-entry. The entry (c) for the interest on the deposit will be exactly the same as before. The entries are as follows—

Dr.		CASH BOOK										Cr.			
Receipts		Office Cash		Bank		Payments		Office Cash		Bank					
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
To Balance		50	—	—	2000	—	—								
							(a) By Deposit A/c (transfer) .						500	—	—
(b) To Deposit A/c (transfer) . .					500	—	—								
(c) To Interest on Deposit A/c .					75	—	—								

Date and Discount columns have been omitted from the above illustration in order to save space. The Ledger Accounts will appear as under—

<i>Dr.</i>		BANK DEPOSIT ACCOUNT										<i>Cr.</i>		
19..					£	s.	d.	19..				£	s.	d.
	To Balance				1500	—	—							
(a)	„ Cash				500	—	—	(b)	By Cash			500	—	—

Dr.				INTEREST RECEIVED								Cr.			
19..		To Profit and Loss		£	s.	d.	19..		By Cash		£	s.	d.		
				75	-	-	(c)				75	-	-		

Dishonoured Cheques

A dishonoured cheque is one that is returned unpaid. Where the return is owing to some irregularity in the cheque or in the endorsement, no book entry will be necessary, as the irregularity can be corrected and the cheque then re-presented.

But where the return is owing to lack of funds with which to meet the cheque, denoted by the explanatory initials "I/F" (insufficient funds) on the top of the cheque, or by the less explanatory but very suggestive letters "R/D" (refer to drawer), an entry must, of course, be made in the books.

For example, suppose a cheque for £30 16s. 4d. is received from R. Smith and is returned dishonoured. As such cheque has previously been debited to the Bank Account when paid in, it must now be taken out. An entry must be made on the credit side of the Cash Book, "*By R. Smith,*" and the amount of £30 16s. 4d. placed in the Bank column.

Correspondence will now ensue with the debtor.

He may reply that the dishonour was an unfortunate oversight. He may state that he has now paid in sufficient to meet the cheque; and he may ask for it to be re-presented.

In such case, the cheque will be paid into the Bank again as a special lodgment; and, if it is met, an entry will be made on the debit side of the Cash Book, "*To R. Smith (dishonoured cheque re-presented),*" and the amount of £30 16s. 4d. extended into the Bank column. When this item is posted to the credit of R. Smith's account in the Sales Ledger, it will balance the debit made when the cheque was dishonoured.

He may, however, plead that the dishonour was not really his fault; that it was owing to the non-receipt by him of certain due payments on which he had calculated. He may send a cheque on account, and promise the balance at some definite later date.

In such case, a fresh receipt will be made out

Dr.

CASH BOOK

Date	Receipts	Ledger Folio	Dis-count			Office Cash			Bank		
19..			£	s.	d.	£	s.	d.	£	s.	d.
Mar. 17	To F. Reeve, £36 12s. 6d., dated 1st April										
Apr. 1	To F. Reeve								36	12	6

for the new cheque, and the amount entered in the Cash Book and posted to Smith's Ledger Account in the usual way.

On the other hand, the cheque may never be met, nor anything paid on account of it. In such case, it will form part of the debtor's account to be dealt with in the manner described previously in the chapter on the collection of accounts.

Post-dated Cheques

These are cheques which bear a date later than the current date. They cannot, therefore, be cashed when first received, but must be kept until the date on the cheque duly arrives. By the Bills of Exchange Act, Sect. 13 (2), a cheque is not invalid by reason only that it is post-dated.

When pressed for payment, a country customer will often send, in the middle of the month, a cheque post-dated the 1st of the following month, stating that he does not want to disturb his bank balance owing to the interest accruing on it. In other cases post-dated cheques are sent with the explanation that the sender himself is expecting some receipts, which, however, will not arrive till a day or two before the date for which the cheque has been made payable. And there may, of course, be various other reasons why such cheques are sent.

Some firms pay these post-dated cheques into their bank at once, and ask their bankers to treat them as "short" bills, i.e. to keep them and present them on the due date. In other firms, they are entered into the Cash Book as and when received, but entered "short," i.e. the amount is not extended into the money columns.

This acts as a safeguard against their being subsequently forgotten. On the due date, they are re-entered in the Cash Book, and paid into the Bank in the usual way. An example is given below.

Should a banker by mistake pay a post-dated cheque, he cannot debit his customer's account with it before the due date arrives.

Were a post-dated cheque to be circulated or negotiated, the drawer might possibly incur penalties under the Stamp Act, as the 2d. stamp on a cheque differs materially from the *ad valorem* stamp required on bills of exchange over £10 and exceeding three days' currency.

Cash Discount

A cash discount is an allowance made when receiving or paying an account. Unlike the trade discount which is deducted on the invoice when the goods are dispatched, the cash discount is not deducted until a remittance is actually sent in payment of the amount owing.

Calculation of Cash Discounts

Although the cash discounts have been actually worked out by the customers and taken off the invoice or statement, yet it is necessary for the cashier to recalculate them, in order to test the accuracy of the amounts so deducted.

Some offices are provided with discount calculators, useful little books of tables, which show the amount of discount on almost any sum at any of the usual rates. From these the discounts can be readily ascertained. But where such books are not available, recourse must be had to some quick, easy, and accurate method of calculation.

The commonest cash discounts are 5 per cent, $3\frac{3}{4}$ per cent, $2\frac{1}{2}$ per cent, and $1\frac{1}{4}$ per cent. Five per cent is 1s. in the £, 9d. in 15s., 6d. in 10s., and 3d. in 5s., or $\frac{1}{20}$ th of the amount on which discount is to be calculated; $3\frac{3}{4}$ per cent is 9d. in the £, or $\frac{3}{80}$ ths of the amount; $2\frac{1}{2}$ per cent is 6d. in the £, or $\frac{1}{40}$ th of the amount; $1\frac{1}{4}$ per cent is 3d. in the £, or $\frac{1}{80}$ th of the amount. To calculate discounts on fractions of a £, the shillings and pence must be reduced to pence, which must then be divided by the denominator of one of the preceding fractions, the one appropriate to the rate of discount being calculated. If after division the remainder is equal to one-half or over one-half (or is .5 or greater than .5, when decimals are used), it is reckoned as another penny; if less than one-half (or less than .5), it is ignored.

EXAMPLE 1. Find 5 per cent of £137 16s. 7d.
 $5\% = 1s.$ in the £ = 137s. 16s. 7d. = 199d. $\frac{1}{20}$ th of 199d. = $9\frac{1}{2}$ d. = 10d. Discount = £6 17s. 10d.

EXAMPLE 2. Find $3\frac{3}{4}$ per cent of £84 13s. 4d.
 $3\frac{3}{4}\% = 9d.$ in the £. $84 \times 9d. = 84 \times \frac{3}{4}s. = 63s.$
 13s. 4d. = 160d. $\frac{3}{80}$ ths of 160d. = 6d. Discount = £3 3s. 6d.

EXAMPLE 3. Find $2\frac{1}{2}$ per cent of £148 11s. 7d.
 $2\frac{1}{2}\% = 6d.$ in the £. 148 sixpences = half the number of shillings = 74s. 11s. 7d. = 139d. $\frac{1}{40}$ th of 139d. = $3\frac{1}{2}$ d. Since $\frac{3}{80}$ ths = half, $3\frac{1}{2}$ d. = 3d. Discount = £3 14s. 3d.

EXAMPLE 4. Find $1\frac{1}{4}$ per cent of £96 11s. 8d.
 $1\frac{1}{4}\% = 3d.$ in the £. $96 \times 3d. = 96 \times \frac{1}{4}s. = 24s$
 11s. 8d. = 140d. $\frac{1}{80}$ th of 140d. = $1\frac{1}{2}$ d. = 2d. Discount = £1 4s. 2d.

The above examples have been worked in full in order to supply illustrations of the reading matter. Generally speaking, however, 5 per cent would be found *mentally*, and all the others obtained from it. Thus, in Example 3, 5 per cent of £148 11s. 7d. would be (mentally) £7 8s. 6·9d. $2\frac{1}{2}$ per cent ($\frac{1}{2}$ of 5 per cent) is £3 14s. 3·4d. Discount = £3 14s. 3d. In Example 2, 5 per cent of £84 13s. 4d. would be (mentally) £4 4s. 8d.

	£	s.	d.
$2\frac{1}{2}\%$ ($\frac{1}{2}$ of 5%) 1s	2	2	4
$1\frac{1}{4}\%$ ($\frac{1}{2}$ of $2\frac{1}{2}\%$) 1s	1	1	2
<hr/>	<hr/>	<hr/>	<hr/>
$3\frac{3}{4}\%$	3	3	6

Again, in Example 4, 5 per cent of £96 11s. 8d. would be (mentally) £4 16s. 7d. $1\frac{1}{4}$ per cent ($\frac{1}{4}$ of 5 per cent) is £1 4s. $1\frac{1}{2}$ d., or £1 4s. 2d. to the nearest penny.

In some businesses, e.g. drapery, etc., prices are quoted in fractions of a penny, as 2s. $11\frac{3}{4}$ d., 3s. $9\frac{1}{2}$ d., and so on; and invoice amounts are consequently calculated to the nearest farthing. In such cases, discount deductions are also reckoned to the nearest farthing. In the great majority of businesses, however, invoice calculations are made to the nearest penny, and consequently the discount is calculated to the nearest penny.

Calculation of Very Small and of Less Usual Rates

In some trades it is necessary to calculate percentages as small as $\frac{1}{2}$ per cent, $\frac{1}{4}$ per cent, and even $\frac{1}{8}$ per cent, and also rates ranging between 1 per cent and $4\frac{1}{2}$ per cent. The rule for making such calculations rapidly and accurately is as follows: Multiply the principal (in pounds) by *twice* the rate per cent, and *decimalize* the last figure of the result. This gives the answer in shillings and decimals of a shilling. The decimals, multiplied by 12, will give the required pence figure. The following examples will clearly illustrate the working of the rule—

$\frac{1}{8}\%$ of £4 = $4 \times \frac{1}{8} = 0.5$ s. $.1 \times 12 = 1.2$ d. Discount = 1 d.

$\frac{1}{8}\%$ of £400 = $400 \times \frac{1}{8} = 10.0$ s. Discount = 10 s.

$\frac{1}{8}\%$ of £52 = $52 \times \frac{1}{8} = 1.3$ s. $.3 \times 12 = 3.6$ d. Discount = 1 s 3 d., or 1 s. 4 d. to the nearest penny.

$\frac{1}{8}\%$ of £49 = $49 \times \frac{1}{8} = 4.9$ s. $.9 \times 12 = 10.8$ d. Discount = 4 s. 10 d., or 4 s. 11 d. to the nearest penny

$\frac{1}{4}\%$ of £65 = $65 \times \frac{1}{4} = 3.25$ s. $.25 \times 12 = 3.0$ d. Discount = 3 s 3 d.

$1\frac{1}{2}\%$ of £75 10 s. = $75\frac{1}{2} \times 3 = 22.6\frac{1}{2}$ s. $.6\frac{1}{2} \times 12 = 7.8$ d. Discount = £1 2 s. 7 d., or £1 2 s. 8 d. to the nearest penny.

2% on £9 5 s. = $9\frac{1}{2} \times 4 = 3.7$ s. $.7 \times 12 = 8.4$ d. Discount = 3 s. 8 d.

$3\frac{1}{2}\%$ on £26 15 s. = $26\frac{1}{2} \times 7 = 18.7\frac{1}{2}$ s. $.7\frac{1}{2} \times 12 = 9.0$ d. Discount = 18 s. 8 d., or 18 s. 9 d. to the nearest penny.

$4\frac{1}{2}\%$ on £87 16 s. 10 d. (16 s. 10 d. is not an exact fraction of a £, but can be decimalized mentally, correct to three places, as .842) = $87.842 \times 9 = 79.05$ s. $.05$ s. $\times 12 = 0.6$ d. Discount = £3 19 s., or £3 19 s. 1 d. to the nearest penny.

The principle on which the rule is founded is based on observation of the full working of such calculation in the ordinary way. For instance, $4\frac{1}{2}\%$ per cent on £87 16 s. 10 d.

$$= \frac{87.842 \times 2\frac{1}{2} \times 9}{1 \times 20 \times 2} \text{ shillings}$$

We multiply by 20 to bring the pounds to shillings. Cancelling, 2 goes into 20, 10; and 10 goes into 100, 10. Thus, we have now to multiply by 9 (which is twice the rate), and to divide by 10 (which is decimalizing), and the answer is in shillings and decimals of a shilling.

A correspondent, writing to the author, says that a somewhat similar method is adopted, in the Lancashire cotton trade, for computing commissions and trade and cash discounts. The principal is multiplied by twice the rate, and the last figure of the result is decimalized. Figures to the left of the decimal point are shillings; the figure to the right of the decimal point becomes pence by the addition to it of one-fifth of itself. Thus—

$$\begin{array}{rcl} \frac{1}{8}\% \text{ of } £52 & = 52 \times \frac{1}{8} & = 1.3 \\ \frac{1}{8}\text{th of } .3 & & = .0 \\ \hline & & 3 \text{ Discount} = 1 \text{ s } 3 \text{ d.} \end{array}$$

$$\begin{array}{rcl} \frac{1}{8}\% \text{ on } £49 & = 49 \times \frac{1}{8} & = 4.9 \\ \frac{1}{8}\text{th of } .9 & & = .1 \\ \hline & & 10 \text{ Discount} = 4 \text{ s. } 10 \text{ d.} \end{array}$$

$$\begin{array}{rcl} 2\% \text{ of } £9 \text{ } 5 \text{ s.} & = 9\frac{1}{2} \times 4 & = 3.7 \\ \frac{1}{8}\text{th of } .7 & & = .1 \\ \hline & & 8 \text{ Discount} = 3 \text{ s } 8 \text{ d.} \end{array}$$

The correspondent adds: "Naturally, in

firms where every Friday there are some hundreds of invoices to be discounted before payment, some rapid method of computation is a *sine qua non*, and in that trade I have found discount calculated in a way that I have not come across anywhere else, which is at once rapid and reliable."

Bank Balance not Shown in Cash Book

Where it is considered undesirable for the Cash Book to show the Bank balance, the opening Bank balance, instead of being entered in the Cash Book, is posted to the debit of a Bank Account in the Private Ledger. The Bank columns in the Cash Book then contain only the month's receipts and payments.

These columns are added every month, and the totals transferred to the Bank Account in the Private Ledger. The Reconciliation Statement is also entered in this Private Ledger Bank Account instead of in the Cash Book.

Cashiers' Change Money

Where it is necessary to advance money to the cashier and sub-cashiers in order to enable them to give change to customers, a cheque is drawn for the total of the sums so advanced, and the amount is posted to a Change Money Account in the General Ledger.

This method avoids the necessity and trouble of keeping in the till or cash box the cashiers' IOU's for such advances. At balancing time, the amount of the Change Money is added to the ordinary cash balance, and the total shown on the Balance Sheet as Cash in hand. Such permanent cash balances are often called "Cash floats," as the amounts are floated or carried on from month to month.

Columns for Cash Sales and Bills

Where Cash Sales (Ready Money Sales or Till Takings as they are also called) are numerous and sufficiently large in amount to pay into Bank daily, a separate Cash Sales column is often provided, on the debit side of the Cash Book, in which to record the daily receipts. The object of this column is to save posting the daily amounts to the Ledger.

The Cash Sales column, while conveniently recording the daily amounts, allows a separate monthly total to be made. Previously the daily amounts were posted to a separate Cash Sales Account in the General Ledger, and the total of this account transferred at the end of the month to the Sales Account.

The object of the separate Cash Sales Account was to keep a lot of unnecessary detail out of the Sales Account. The Cash Sales column in the Cash Book takes the place of this Ledger Account, and enables the Cash Sales total at the end of the month to be posted direct from the Cash Book to the Sales Account itself.

A column for Cash Purchases is also provided, on the credit side, where necessary or advantageous, the object being to save constant posting to the Ledger of details which are not of real use or importance.

A column for Bills is often provided on each side of the Cash Book—one on the debit side for Bills Receivable, and one on the credit side for Bills Payable, more particularly when bills are numerous. The object of these columns is to save a lot of detailed posting to the Ledger, as such columns permit monthly totals to be posted instead of daily details.

Many accountants do no favour such columns, for bills, as the detailed posting of them to the Ledger enables each bill to be separately traced. Where they are entered separately from the Bill Books into the Bills Receivable and Bills Payable Accounts in the General Ledger, then the payment of each bill can be entered on the same line as the bill itself, thus conveniently facilitating reference to each particular bill.

But where bills are very numerous, and Memorandum Bills Receivable and Bills Payable Ledgers are kept to show the individual details, then these columns in the Cash Book are very useful; for the daily details can be posted to the Bill Ledgers, and only the monthly totals to the Bills Accounts in the General Ledger, the latter posting being all that is required for double-entry purposes.

Specimen rulings are shown on page 156.

Alternate and Subsidiary Cash Books

Where remittances are very numerous, alternate Cash Books are often kept, one for use on Mondays, Wednesdays, and Fridays, and the other for use on Tuesdays, Thursdays, and Saturdays. The object of this is to prevent the ledger-keeper, when he wants to post Cash to Ledger, having to wait for the Cash Book until the cashier has finished entering up the morning's receipts.

Where the debtors are very numerous and occupy many separate ledgers or groups of ledgers, subsidiary Cash Received Books are often kept, one for each ledger or group of ledgers. Thus, suppose the ledger debtors are

subdivided into A-C, D-F, or into Dept. 1, Dept. 2, Dept. 3, or into London, Provincial, and European, then a separate Cash Received Book will be kept for each group or subdivision.

The daily receipts are entered into the Cash Received Books, and only daily totals transferred to the ordinary Cash Book, which, in such circumstances, is usually called the General Cash Book or the General Cash Summary Book.

The object of such subdivisions of the Cash Book is to facilitate reader reference, and also to ensure quicker entry into the Ledger, thus enabling the posting to be kept up to date.

Where all the numerous receipts are entered in one Cash Book, only one ledger clerk at a time can use it for posting to Ledger; but with subsidiary Cash Received Books, the ledger clerks can all be posting the day's receipts at the same time. Each subsidiary Cash Received Book is totalled daily, balanced by an entry of such total on the credit side, "*By transfer to General Cash Book,*" and ruled off.

In the General Cash Book, the totals of the various subsidiary Cash Received Books are entered daily, underneath one another, and the amounts extended into the Bank column; or, if the receipts side of the General Cash Book is provided with the necessary tabular ruling, the totals are all entered on one line, the amounts being placed in their appropriate columns and totalled into the Bank column.

As we shall see later, subsidiary Cash Received Books are also used in connection with self-balancing ledgers, and in connection with shares and debentures in joint-stock company book-keeping.

Where bills of exchange are very numerous, a subsidiary Cash Received Book and a subsidiary Cash Paid Book are also used in connection with the Memorandum Bills Receivable and Bills Payable Ledgers.

Again, in public institutions and large commercial undertakings, such as building societies and insurance offices, numerous subsidiary Cash Books are employed, not only for receipts but also for expenditure, in order to facilitate the great division of labour which is such a characteristic feature of modern large enterprises.

Columnar Cash Books

Columnar Cash Books, i.e. those ruled with many columns on each side, are specially suitable for professional men and for private and public institutions, such as hospitals and hotels, where receipts come regularly always from the same

They can be used, too, for those businesses having self-balancing ledgers; as all personal receipts and payments can be analysed, and the amounts extended into their appropriate ledger columns. They are eminently suitable for large commercial undertakings, such as building societies and insurance companies, where income and expenditure must legally be analysed under certain specified headings.

Where extra columns are provided for Cash Sales and Cash Purchases, and for Bills Receivable and Bills Payable, considerable saving of time and labour is effected; as, instead of numerous daily postings to Ledger in each case, there is only one monthly posting of the columnar totals. Indeed, this advantage means the saving of a lot of detailed ledger posting by adding columns periodically (monthly, quarterly

With the Columnar Cash Book on a large scale, there is the added advantage that both receipts and expenditure are subjected to continuous daily analysis. A General Cash Book, in columnar form on a large scale, affords a general view of the sources of income and the channels of expenditure, and thereby furnishes useful information in a concise form ; summaries of such general income and expenditure, up to the current date, are often required for board and committee meetings.

Several examples of Columnar Cash Books follow, which will amply repay the reader's careful and attentive study. At the top of each specimen, mention is made of the type of business or institution for which the Cash Book is suitable. Most of them, of course, are General Cash Books, i.e. written up in daily totals, the figures being obtained from subsidiary Cash Received and Cash Paid Books.

Dr.

[illegible]

C7.

[illegible]

CASH

Date	Month	Policy No.	Particulars	Ld Fol.	Premiums								Reas- sur- ances	Con- sidera- tion for Annui- ties Granted					
					Head Office				Branch and Agency										
					New		Renewal		New		Renewal								
19..					£	s	d	£	s	d	£	s	d	£	s	d	£	s	d

CASH

[illegible]

RECORDING CASH

155

RECEIVED BOOK

[illegible]

PAID BOOK

[illegible]

GENERAL TRADER (I)

Dr		RECEIPTS															
Date	Particulars	Led. Fol.	Dis- count			Office Cash			Bank			Cash Sales			Bills Receiv- able		
19..			£	s	d	£	s	d	£	s	d	£	s	d	£	s	d

PAYMENTS

Date	Particulars	Led Fol	Dis- count	Office Cash	Bank	Cash Pur- chases	Bills Pay- able
19..			£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.

GENERAL TRADER (2)

[illegible]

PAYMENTS

[illegible]

RECORDING CASH

157

HOTEL
RECEIPTS
$$D\tau$$
[illegible]

PAYMENTS

Cr.

[illegible]RETAILER
RECEIPTS
$$D\tau$$
[illegible]

PAYMENTS

Cr.

[illegible]

PETTY CASH

PETTY cash is a sum of money advanced to a junior clerk or a sub-cashier in order to make the necessary petty or small disbursements which are incidental to the daily routine of modern business. The object of having a separate petty cashier, and of keeping a separate Petty Cash Record, is to relieve the ordinary cashier of such trivial payments, and to lessen the number of entries in the ordinary Cash Book.

There are various methods of dealing with Petty Cash—

1. As a subsidiary part of the General Cash Book, with or without a summarized analysis.

2. As a special Ledger Account, the abstract of the expenditure being journalized for posting to appropriate Expense Accounts in the General or Impersonal Ledger.

3. On the Imprest System, in an entirely separate and independent Cash Book, with continuous detailed analysis.

Again, where analysis of expenditure is resorted to, this is done sometimes by means of periodical dissection and summary, and sometimes by the daily use of subsidiary columns.

The First or Memorandum Book Method

This is the method which still obtains in many businesses. A Memorandum Petty Cash Book is kept, and in this all items of petty expenditure are entered daily as and when made.

A cheque for £5, £10, or £20 (according to the size of the business) is drawn on the Bank Account to cover the estimated amount of expenditure for the month (or shorter period), and further sums are advanced whenever the balance is reduced to a small or insignificant amount.

This book, being a memorandum book, does not, of course, form part of the regular double-entry system. At the end of the month, therefore, the expenditure is added, and the total entered in the Cash Book on the credit side, "*By Trade Expenses*," and posted to the debit of the Trade Expenses Account in the General or Impersonal Ledger. The following is an example—

PETTY CASH BOOK

19..			s.	d.
Jan. 1	Fares	1	8	
	Tips			4
2	Washing Towels			1
	Stamps	1	10	9
3	Telegrams		2	3
	Fares			8
4	Midland Railway Co., Carriage		16	6
5	Cleaning Rooms		12	6
6	Travellers' Expenses	1	12	8
8	Parcels Delivery Co., Carriage		4	6
9	Fares			10
	Post Cards		1	—
10	Telegrams		3	—
11	Fares		1	6
	Tips			6
12	Washing Towels		1	8
13	Carter Paterson & Co., Carriage		3	9
15	Tips			5
16	Fares		2	4
17	Travellers' Expenses	1	18	6
18	Fares			9
19	Telegrams		2	3
20	Telegrams		2	—
23	Tape			6
24	Fares			10
25	Cards and Labels		12	4
26	Southern Railway Co., Carriage		6	9
27	Washing Towels		1	8
29	Fares			10
30	Telegrams		2	6
31	Pickford & Co., Carriage		4	10
		£9	11	7

Dr.

CASH BOOK

Cr.

Date	Receipts	Led Fol	Office Cash	Bank	Date	Payments	Led Fol	Office Cash	Bank
19..			£ s d	£ s d	19..			£ s d	£ s d
Jan. 1	To Balance	.	2 6 6	160 6 6	Jan. 1	By Petty Cash	c		10 - -
	" Bank	c	10 - -			Etc., etc			
	Etc, etc				31	" Trade Expenses		9 11 7	

GENERAL OR IMPERSONAL LEDGER
TRADE EXPENSES

Dr				Cr			
19..			£ s d				
Jan 31	To Cash		9 11 7				

The Second Method

The second method is to draw from Bank a cheque for petty cash, and to treat it as a cross entry, as before. The details are also entered in a Memorandum Petty Cash Book as in the previous example.

At the end of the month, however, the expenditure is analysed, and a summary made. This abstract is copied into the Cash Book, and is then posted to the Nominal Accounts affected in the General or Impersonal Ledger.

In some limited companies also, the petty cash summary is copied into the General Cash Book. These totals have to be incorporated in the Cash Book, because the Articles of Association do not recognize the Petty Cash Book as one of the books of account.

The following is an example—

PETTY CASH BOOK

19..		£	s	d
Jan. 1	Window Cleaning		5	—
	Gratuities to Carmen			6
2	Stamps	1	10	—
	Washing Towels and Dusters		2	3
3	Bus and Tram Fares			10
	Telegrams		3	6
4	Carter Paterson & Co., Carriage on Sales		13	8
5	Cleaning Offices and Rooms		10	6
	Sweeping Chimneys		4	6
6	Travellers' Expenses	1	15	3
	<i>Carried forward</i>		5	6 0

19..		£	s	d
Jan 8	<i>Brought forward</i>	5	6	0
	L. & N.E. Railway, Carriage on Purchases		16	10
9	Bus and Tram Fares		1	2
	Post Cards		4	—
10	Tape and Sealing Wax		1	6
11	Bus and Tram Fares		2	1
	Gratuity to Dustmen			6
12	Washing Towels and Dusters		3	4
13	Southern Railway, Carriage on Purchases	1	2	9
15	Gratuity to Carmen			6
17	Travellers' Expenses	1	11	8
18	Repairs to Office Stools		16	10
	Bus and Tram Fares		1	4
19	Telegrams		2	3
20	Telegrams		3	6
23	Mending Window		4	6
24	Bus and Tram Fares		1	7
25	Printing Address Labels		18	6
26	L.M.S. Railway, Carriage on Sales	1	15	9
27	Washing Towels and Dusters		2	6
29	Bus and Tram Fares		1	5
30	Telegrams		2	4
31	Parcels Delivery Co., Carriage on Sales		15	9
	<i>SUMMARY</i>	£14	16	7

Postage and Telegrams	2	1	7
Printing and Stationery	1	2	6
Carriage Inwards	1	19	7
Carriage Outwards	3	5	2
Repairs	1	1	4
Travellers' Expenses	3	6	11
Sundry Expenses	1	19	6
	£14	16	7

Dr.

CASH BOOK

Cr

Date	Receipts	Led Fol	Office Cash	Bank	Date	Payments	Led Fol	Office Cash	Bank
19..			£ s d	£ s d	19..			£ s d	£ s d
Jan. 1	To Balance		2 6 6	100 6 6	Jan. 1	By Petty Cash	c		15 — —
	„ Bank	c	15 — —			Etc.			
	Etc.					Etc.			
	Etc.				31	„ Postage and Telegrams		2 1 7	
						„ Printing and Stationery		1 2 6	
						„ Carriage Inwards		1 19 7	
						„ Carriage Outwards		3 5 2	
						„ Repairs		1 1 4	
						„ Travellers' Expenses		3 6 11	
						„ Sundry Expenses		1 19 6	

Third Method

The disadvantage of the second method is that it delays the balancing and ruling off of the Cash Book, since this work cannot be done until the petty cash has been analysed, and the summary written in on the credit side.

To prevent this delay the cheque drawn for petty cash is posted to the debit of a Petty

Cash Account in the General or Impersonal Ledger.

At the end of the month the petty cash is analysed and the abstract of the expenditure is journalized, each Expense Account being debited, and the Petty Cash Account credited with the monthly total. The following is an example—

Dr. CASH BOOK (Page 46) Cr.									
Date	Receipts	Led. Fol	Office Cash	Bank	Date	Payments	Led Fol	Office Cash	Bank
19.. Jan. 1	To Balance		£ 2 s 6 d	160 6 6	19.. Jan. 1	By Petty Cash	53	£ 15 s - d	
(Page 74) JOURNAL Dr Cr.									
19.. Jan. 31	Postage and Telegrams				61	£ 2 s 1 d			
	Printing and Stationery				62	1 2 6			
	Carriage Inwards				63	1 19 7			
	Carriage Outwards				64	3 5 2			
	Repairs				65	1 1 4			
	Travellers' Expenses				66	3 6 11			
	Sundry Expenses				67	1 19 6			
	To Petty Cash				53			14 16 7	
	For expenditure during month as per Petty Cash Book.								

GENERAL OR IMPERSONAL LEDGER									
61 Dr. POSTAGE AND TELEGRAMS Cr. 61									
19.. Jan. 31	To Petty Cash	J 74	£ 2 s 1 d	7					
62 Dr. PRINTING AND STATIONERY Cr. 62									
19.. Jan. 31	To Petty Cash	J 74	£ 1 s 2 d	6					
63 Dr. CARRIAGE INWARDS Cr. 63									
19.. Jan. 31	To Petty Cash	J 74	£ 1 s 19 d	7					
64 Dr. CARRIAGE OUTWARDS Cr. 64									
19.. Jan. 31	To Petty Cash	J 74	£ 3 s 5 d	2					
65 Dr. REPAIRS Cr. 65									
19.. Jan. 31	To Petty Cash	J 74	£ 1 s 1 d	4					

66 Dr.		TRAVELLERS' EXPENSES										Cr. 66	
19..													
Jan. 31	To Petty Cash	J.74		£	s.	d.							
				3	6	11							

67 Dr.		SUNDRY EXPENSES										Cr. 67	
19..													
Jan 31	To Petty Cash	J 74		£	s.	d.							
				1	19	6							

53 Dr.		PETTY CASH										Cr. 53		
19..								19..						
Jan 1	To Cash	46		£	s.	d.		Jan 31	By Sundries	J 74		£	s.	d.
				15	-	-			„ Balance c/d			14	16	7
													3	5
				£15	-	-						£15	-	-
Feb 1	To Balance b/d					3	5							

The Imprest System

The most up-to-date method of keeping the petty cash, however, is on what is called the "Imprest System." A Tabular or Columnar Petty Cash Book is employed, and in this the items are subjected to continuous daily analysis. The word "imprest" means "taken and held."

A sum of £20 or £30 is advanced to meet the estimated expenditure for the month. The money so taken for Petty Cash is always held for this purpose, as the total sum expended is replaced at the end of the month.

Each fresh month thus starts with the floating balance, i.e. an amount equal to the original advance. This initial fixed sum may, of course, be raised or lowered subsequently, according as experience proves to be necessary. And, generally speaking, there is superimposed a limit (usually £2) on the amount of any one payment through the petty cash.

By having to sign a cheque for a different amount each month, the proprietor or responsible official would, it is thought, be more likely to examine the petty cash than if he were simply in the habit of signing each month a cheque for the same round sum. Under this system the amount actually disbursed is brought prominently before his notice.

Headings of the Analytical Columns

The analytical columns are headed with the names of the Expense Accounts appearing in the General or Impersonal Ledger. Separate columns are provided for the usual, regularly recurring items of expenditure.

The headings are varied to meet the special

requirements or to suit the convenience of each individual concern. Thus, in addition to the columns shown in the model worked example, we also find columns for Office Expenses, Advertisements, Sundry Stores, Cash Purchases, etc.

A Ledger Accounts column is usually provided, principally for expenditure which is chargeable to some personal account, e.g. carriage paid out on empties returned by customers, or carriage on goods sent, at a customer's request, carriage paid to a particular address, or for discount paid to a customer.

This column has also a secondary use, namely for small, unusual items of expenditure for which no separate column is available, as, for instance, Repairs, Furniture, and Fixtures.

This Ledger Accounts section is furnished with a special folio column; for the varying items which appear under this heading have to be posted individually, and hence will require separate folios. The personal account items are usually posted to Ledger the same day as they are entered in the Petty Cash Book.

Advantage of the Total Column

In the Petty Cash Book a total column is provided, and is most conveniently placed at the commencement of the columnar ruling. The amount expended is first entered in this total column, and is then extended into its proper analytical column.

The total of this total column must be equal to the aggregate total of the analysis columns. In other words, the vertical addition or cast must be equal to the horizontal or cross cast, thus

affording a check on the arithmetical accuracy of the analysis.

This advantage is, of course, not peculiar to the Columnar Petty Cash Book, but is one of the general advantages accruing from the use of columnar subsidiary books.

Importance of the Analysis

The work of analysing, if left for a period (weekly, fortnightly, or monthly) must then be done by means of dissection and summarizing, and is very tedious and laborious; but when done, by the use of subsidiary columns, simultaneously with the payment of the expense, it is a fairly light task.

The analysis itself is of considerable importance. Such monthly summaries are useful for purposes of comparison. The various items of expense can be compared, and the fluctuations noted, and any unusually large amounts investigated.

Such comparisons may incidentally disclose extravagance or waste in some direction; they may also lead to inquiry as to why, with a normal turnover, expenses should vary to any great extent; they may also suggest ideas of retrenchment, i.e. the curtailing of certain expenses, or the adoption of other methods as being financially more prudent.

Such results would hardly follow from the mere comparison month by month of gross totals of unanalysed expenditure.

Petty Cash Receipts and Vouchers

Where possible, original receipts are obtained for all money spent. In the case of carriage paid to railway companies, or to general carriers, this will be quite possible. For money paid for travellers' expenses, stationery, and repairs, such procedure will also be quite normal.

A number of trifling disbursements, however, will necessarily have to be made for which no receipts can be obtained, and hence no original

documentary evidence of payment. Many firms use a specially printed card or ticket, called a Petty Cash Voucher, on which the expenditure is detailed, and the amount initialed by the chief cashier or by some official duly authorized to sanction petty payments.

A specimen is given in the previous column.

The vouchers are filed either in alphabetical or in numerical order, the latter method being preferable, as it is easier and quicker for subsequent reference.

The vouchers (see specimen) are often punched ready for putting in a loose-leaf holder, so that they can be filed immediately the payment has been made, and thus prevent their being mislaid or lost. Any original receipts obtained are attached to the voucher as ocular evidence of the payment.

The vouchers are numbered consecutively, and they usually state the account (real, nominal, or personal) to be charged, so that payments may be correctly allocated to their respective Ledger Accounts.

In some businesses, different departments operate their own petty cash. Thus, there may be an Office Petty Cash, a Works Petty Cash, a Costing Department Petty Cash, and so on. In such cases the vouchers are generally distinguished by colours, a separate, distinctive colour being allotted to each department.

In such cases, too, the Petty Cash Analysis is subjected to a rigorous scrutiny by some responsible official, or else specially checked by the staff auditor, as incorrect allocation of expenditure might, especially in the case of a Costing Department, lead to serious results.

Special Use of the Petty Cash Book

A point to be noticed is that this kind of Petty Cash Book is a proper, two-sided, debit and credit Cash Book, the money received, as well as the money spent, appearing in the one book. This obviates the necessity for treating the petty cash advance as a cross entry in the ordinary Cash Book, or for posting it to a Petty Cash Account in the General or Impersonal Ledger.

At the end of the month, the subsidiary expenditure columns are totalled, and the analytical summary is at once available. Thus, the labour of monthly dissecting and summarizing is entirely avoided.

Again, for posting to Ledger, it is not necessary to copy the expenditure summary into the General Cash Book, that book being, under this

PETTY CASH VOUCHER									
O	No .. 65..... Date... 30th Dec., 19..								
	DETAILS OF EXPENDITURE								
	<table border="0"> <tr> <td></td> <td>£</td> <td>s.</td> <td>d.</td> </tr> <tr> <td>Xmas Box to Postman.</td> <td>2</td> <td>6</td> <td></td> </tr> </table>		£	s.	d.	Xmas Box to Postman.	2	6	
	£	s.	d.						
Xmas Box to Postman.	2	6							
O	Account Sundry Expenses								
	Authorized by ... F.H.L..								

system, relieved altogether of petty cash details ; neither is it necessary to copy the abstract of the expenditure into the Journal.

The Petty Cash Book itself is used as a posting medium, the columnar totals being posted direct from the Petty Cash Book to the Expense Accounts affected in the General or Impersonal Ledger, and the ledger folios, except in the Ledger Accounts section, inserted at the foot of the expenditure columns.

Under this system the Petty Cash Book is not only a book of original entry, but is also one of the regular books of account, and an essential or integral part of the double-entry system.

Hence the balance of this book must, at balancing time, be included in the Trial Balance, and also incorporated in the cash balance shown in the Balance Sheet.

Advantages of the Imprest Petty Cash Book

Although, strictly speaking, the term "Imprest System" applies only to the method of advancing the money and the reimbursement of the amount spent, yet the use, in conjunction with it, of a Columnar Petty Cash Book, with debit and credit columns, and serving also as a posting medium, is now becoming so general as to warrant the adoption of the term "Imprest Petty Cash Book" to denote both the specially used Cash Book, and also the particular pecuniary system which gave rise to the original term.

The advantages claimed for it may be briefly stated—

1. It saves time, as it enables the monthly totals to be posted to the Ledger instead of daily details.

2. It reduces the risk of error, as there is a regular system of payments under proper supervision. As the analysis is done simultaneously with the payment, there is, in this respect also, less risk of clerical error.

3. It affords less opportunities for defalcations and fraud. There is a methodical system of payments, each of which must be duly sanctioned. Even though the amounts are, comparatively speaking, small, yet nothing is more conducive to misappropriation than an irregular system of payments coupled with lack of proper supervision. Further, there is the fixed limit to any one payment.

Again, the petty cashier is not allowed to use, for spending purposes, any small sums of cash received from customers, the money for petty

cash purposes being always derived from the one source, namely the cheques drawn specially for the purpose of the original advance and the subsequent reimbursements.

Hence the cash balance for each ensuing month is definitely known ; it is always the same amount, i.e. the imprest amount. A varying balance month by month might easily be used to conceal defalcations.

4. The Petty Cash can be verified at times during the month. At any stage, the amount paid, as evidenced by the vouchers, plus the balance in hand, must always equal the imprest amount.

When checking the actual cash balance at any time, the responsible official should also check all the other cash floats or balances (postage cash, works cash, and change money), at one and the same time, as, in the event of collusion among members of the staff, one balance might be lent or used in support of another which did not exist in its entirety, or which existed perhaps only on paper.

Worked Example

The following particulars of a trader's petty disbursements for the month of January will now be written up in a Tabular Petty Cash Book, kept on the Imprest System, and the expenditure analysed under suitable headings. The book will be balanced and ruled off, and the columnar totals posted to Ledger Accounts—

19..		Voucher No.	£	s.	d.
Jan. 1	Advanced to Petty Cash, C.B. 78 £20				
2	L.M.S. Railway, Carriage on Purchases	1	1	17	10
	Stamps	2	1	10	—
3	Midland Railway, Carriage on Purchases	3		16	8
	Tape and Sealing Wax	4		1	6
4	Pickford & Co., Carriage on Sales	5		4	6
5	Bus and Tram Fares of Boy	6		1	3
6	Telegrams	7		3	2
7	Window Cleaning	8		5	—
	Gratuities to Carmen	9			6
8	Parcels Delivery Co., Carriage on Sales	10		8	9
	Bus and Tram Fares of Boy	11		11	
9	Gratuities to Dustmen	12			6
	Putting New Glass in Broken Window	13		5	6
10	Washing Towels and Dusters	14		3	4
	Telegram	15		1	8
11	Post Cards	16		3	—
	Travellers' Expenses	17		1	10
	Carried forward		£7	14	7

		Vou- cher No	£	s	d.
19..	<i>Brought forward</i>		7	14	7
Jan 12	Printing Address Labels . . .	18		15	3
	Telegrams . . .	19		2	10
14	Bus and Tram Fares of Boy	20		1	8
	Gratuity to Carman . . .	21			3
15	Cleaning Offices and Rooms	22	10		6
	Carter Paterson & Co., Car- riage on Sales . . .	23		12	4
16	L.M.S. Railway, Carriage on Purchases . . .	24	1	2	8
	Telegram . . .	25		1	6
17	Bus and Tram Fares of Boy	26		1	3
	Gratuity to Carmen . . .	27			6
18	Matches . . .	28		10	
	Candles . . .	29			6
19	Travellers' Expenses . . .	30	1	15	7
	Gratuity to Dustmen . . .	31			6
21	Telegrams . . .	32		3	4
	Carriage on Empties returned by Smith & Son—Sent them Debit Note . . .	33		3	6
22	Gratuity to Carmen . . .	34			6
	Pickford & Co, Carriage on Sales . . .	35	14	11	
23	New Stool for Office . . .	36		8	11
	Bus and Tram Fares of Boy	37		1	2
24	Washing Towels and Dusters L. & N.E. Railway, Carriage on Purchases . . .	38		3	6
	Gratuity to Carmen . . .	39	1	17	6
25	Telegrams . . .	40			6
	Telegrams . . .	41		2	8
26	Bus and Tram Fares of Boy	42		1	6
	Gratuity to Dustmen . . .	43			6
28	Window Cleaning . . .	44		5	—
	Carter Paterson & Co., Car- riage on Sales . . .	45		3	6
29	Bus and Tram Fares of Boy	46		1	4
	Telegrams . . .	47		1	6
30	Gratuity to Carman . . .	48			3
	Express Delivery Co., Car- riage on Sales . . .	49		2	11
31	Cleaning Offices and Rooms	50		10	6
	Travellers' Expenses . . .	51	1	10	5
			£19	14	8

In many offices the junior who keeps this account obtains money from Petty Cash for the immediate purchase of such stamps as may be required.

By debiting the account with the value of these stamps and entering the particulars and values on the credit side, he has a record that should at any time be easy to balance, the difference between the two sides of the book being the value of the stamps in hand.

But as he also looks after telegrams and may have to pay for Parcels Postage, he is sometimes entrusted with an even sum of money, which he holds in stamps or cash or can account for by entries made since his last balance.

Let us suppose that he is given £2 and at once spends £1 15s. in stamps of various values, reserving 5s. in cash for parcels, registration, and telegrams.

On the left-hand side of the Postage Book he enters the £2 that represents money or stamps.

As he sends off the letters and parcels he duly enters the particulars such as date, name, address, time of posting, and description, in spaces on the right-hand side reserved for them. In the final cash columns he enters the value of the stamps used, always writing the cost in money.

In order that this shall be clearly seen we present a double-column spread of such a book at a point where the postage keeper has filled up several pages and has recently turned another leaf. His £2 is nearly exhausted, and the time has come for him to approach the keeper of the Petty Cash Book for more money.

Now let us see how this works out (page 167)

It will be seen by adding up the right-hand figures that the column totals to £1 18s. 6d., and there remains a balance of only 1s. 6d. in hand.

At this point the keeper of the stamp book makes out a slip or voucher for the amount expended, and obtains the sum from petty cash.

He can then enter it in his book and rule it off again showing £2 in hand (page 167).

Modern Appliances

The use of mechanical appliances like the stamping machine gives an effective control of stamps and postage, and renders the keeping of a Postage Book unnecessary. The book itself is consequently fast disappearing from modern up-to-date offices. Explanations and illustrations of the appliances will be found on page 95.

Imprest Petty Cash Book

For the writing up of the Imprest Petty Cash Book see next page.

Ledger Accounts

The posting of the items in the Imprest Petty Cash Book to their respective Ledger Accounts is shown on pages 166 and 167.

Postage Book

Keeping the Postage Book may seem to be a very unimportant task, but it is, in reality, a useful experience, because it is often the first step in book-keeping, where the stamp account is properly entered up and balanced.

56 Dr.

PETTY CASH BOOK

Cr. 56

Cash Received	Date	Particulars	Voucher No.	Total	Sundry Expenses	Carrage Inwards	Postage and Telegrams	Travellers' Expenses	Carrage Outwards	Printing and Stationery	Led Fol	Ledger Accounts
£ s d	19 .			£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d		£ s d
20 - -	Jan 1	Cheque Received, C.B. 78										
	2	L.M.S. Railway	1	1 17 10		1 17 10						
		Stamps	2	1 10 -			1 10 -					
	3	Midland Railway Co.	3	16 8		16 8						
		Tape and Sealing Wax	4	1 6	1 6							
	4	Pickford & Co.	5	4 6					4 6			
	5	Bus and Tram Fares of Boy	6	1 3	1 3							
		Telegrams	7	3 2			3 2					
	7	Window Cleaning	8	5 -	5 -							
		Gratuity to Carman	9	6	6							
		Parcels Delivery Co.	10	8 9					8 9			
		Bus and Tram Fares of Boy	11	11	11							
	9	Gratuity to Dustmen	12	6	6							
		New Glass in Window—									G.L.	
		Repairs Account	13	5 6							77	5 6
	10	Washing Towels and Dusters	14	3 4	3 4							
		Telegrams	15	1 8			1 8					
	11	Post Cards	16	3 -						3 -		
		Travellers' Expenses	17	10 6				10 6				
	12	Printing Address Labels	18	15 3						15 3		
		Telegrams	19	2 10			2 10					
	14	Bus and Tram Fares of Boy	20	1 8	1 8							
		Gratuity to Carman	21	3	3							
	15	Cleaning Offices and Rooms	22	10 6	10 6							
		Carter Paterson & Co.	23	12 4					12 4			
	16	L.M.S. Railway	24	1 2 8		1 2 8						
		Telegrams	25	1 6			1 6					
	17	Bus and Tram Fares of Boy	26	1 3	1 3							
		Gratuity to Carman	27	6	6							
	18	Matches	28	10	10							
		Candles	29	6	6							
	19	Travellers' Expenses	30	15 7				15 7				
		Gratuity to Dustmen	31	6	6							
	21	Telegrams	32	3 4			3 4					
		Carriage on Empties—									S.L.	
		Smith & Son's Account	33	3 6							142	3 6
	22	Gratuity to Carman	34	6	6							
		Pickford & Co.	35	14 11					14 11			
	23	New Stool for Office—									G.L.	
		Furniture & Fixtures Account	36	8 11							78	8 11
		Bus and Tram Fares of Boy	37	1 2	1 2							
	24	Washing Towels and Dusters	38	3 6	3 6							
		L. & N.E. Railway	39	17 6		17 6						
	25	Gratuity to Carman	40	6	6							
		Telegrams	41	2 8			2 8					
	26	Bus and Tram Fares of Boy	42	1 6	1 6							
		Gratuity to Dustmen	43	6	6							
	28	Window Cleaning	44	5 -	5 -							
		Carter Paterson & Co.	45	3 6					3 6			
		Bus and Tram Fares of Boy	46	1 4	1 4							
		Telegram	47	6	6		6					
	30	Gratuity to Carman	48	3	3							
		Express Delivery Co.	49	2 11					2 11			
	31	Cleaning Offices and Rooms	50	10 6	10 6							
		Travellers' Expenses	51	10 5				10 5				
				£ 19 14 8	£ 13 9	£ 14 8	£ 2 6 8	£ 4 16 6	£ 2 6 11	£ 18 3		£ 17 11
					G.L. 71	G.L. 72	G.L. 73	G.L. 74	G.L. 75	G.L. 76		
19 14 8	31	Cheque Received, C.B. 95										
		Balance carried forward		20 - -								
£ 39 14 8				£ 39 14 8								

SALES LEDGER

142 Dr.

SMITH & SON

Cr. 142

19 .				£ s d							
Jan. 21	To Petty Cash	56		3 6							

167

SUNDRY EXPENSES

78 Dr.		FURNITURE AND FIXTURES					Cr. 78	
19..			£	s	d			
Jan 31	To Petty Cash	56		8	11			

<i>Dr.</i>				POSTAGE BOOK						<i>Cr.</i>
Date	Particulars	Amount			Date	Name	Address	Time of Post	Posted by	Postage
19..	To Balance forward .	£	s.	d.	19.. Mar. 1	By Balance forward .				£ s. d.
		2	-	-		" Higgins & Co. .	Cork	11 10	J.K.	1 15 1
						" J. Wells, Ltd. .	Truro	11.30		
						" James Hake .	St. Ives	11 30		
						" Rickett & Co. .	Exeter	2.10	Tele-gram Parcel	1
						" Jones Bros. .	Bristol	2.45		
19.. Mar. 1	To Cash	£	s.	d.	19..	By Balance in hand .				£ s. d.
		1	18	6						2 - -
		£3	18	6						£3 18 -
	To Balance	2	-	-						

CHAPTER XV

BILLS OF EXCHANGE AND PROMISSORY NOTES

IN this chapter we deal with Bills of Exchange and Promissory Notes. The first of these are much more extensively used in commerce than the second.

The reason why the Bill of Exchange is preferred may be because promissory notes are used in money-lending transactions, and the use in commerce of documents bearing such a description might be prejudicial to credit.

Hence it has become the custom among persons engaged in trade to use the "order to pay" form rather than the promise to pay. Even when the paper actually represents money borrowed from a bank or from a private person, many traders would dislike using a document that is likely to suggest money lending and money borrowing.

A bill of exchange is usually payable at some future date, though there are some bills which are payable at sight.

Definition

By the Bills of Exchange Acts, 1882 to 1917, a bill of exchange is defined as—

An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

An instrument which does not comply with these conditions, or which orders any act to be done in addition to the payment of money, is not a bill of exchange.

Advantages of Bills

The principal advantages of a bill are—

1. It is a convenient means of settling a debt without parting with the actual money until some later date.

2. It is a legal acknowledgment of debt, together with a definite promise of payment. The order for the goods, the receipt of the goods, and other points, are all taken for granted; and the creditor is thus able to sue on the bill itself, if not duly paid.

3. It is a negotiable instrument, that is, something which can be legally transferred by the creditor, and thus used to pay his own debts.

4. It can be turned into money before the due date, that is, by being discounted with a banker or bill broker. The present worth of the bill at once, in cash if necessary, may be much more valuable to the trader than perhaps the full value of the bill in two or three months' time.

The first and fourth of these advantages should be considered together, for they show that both parties to a bill can be using the money at the same time; and, where traders are working on sound lines, and are able to discount their bills at bank rate, outside capital is being used for the purposes of trade.

The second point shows how the bill is an advantage in many cases. Instances have been known where a troublesome and difficult customer always eager to raise quibbles and make complaints at settling time, has clutched eagerly at the advantage of an extra month's credit, and accepted a bill without demur.

The third advantage speaks for itself. Some firms that take bills from their customers do not regularly discount them or pay them away, but keep them (for discounting purpose) in case a special opportunity of using money makes it desirable to discount them.

Many firms trading upon an overdraft are reluctant to discount customers' bills through their own bankers, because of the impression it might give that they were snatching every opportunity of obtaining extra credit, and that they were dealing with customers who were also short of money.

Such firms, in this position, should an occasional bill come to them, would probably like to discount it or take other advantage of it in order to keep the overdraft as low as possible, but they would prefer to pay it away to one of their own creditors as part settlement of another account rather than pass it through their own bank.

Disadvantages of Bills

The advantages of bills of exchange are often stated, but many persons in trade are not as well aware that at times their use may be a disadvantage.

Supposing, for the sake of argument, a manufacturer takes a three months' bill from a weak

customer and before that bill matures has reason to fear that the customer will fail, he is at once in a quandary as he cannot have the bill presented before it falls due, and he can scarcely press for payment of an account that has already been changed into a negotiable instrument.

Another peril of the bill is the harm to credit that may be done to the acceptor through improper use by the drawer.

To illustrate.

Some time ago a firm bought £100 worth of goods on two months' credit. The creditor explained that he was wanting money, and that he would give an extra month's credit and a special discount if he could have a three months' bill.

The suggestion was agreed to. The buying firm, glad of the discount, and even more glad of the extra month, for they were trading close up to their capital, gave the bill.

A few days later the bank manager desired to see one of the partners.

"You have an overdraft with us," he said, "and I hear that some of your paper is being hawked around the city at 25 per cent discount for three months and no one will take it. What does it mean?"

The meaning was that the drawer, the man who held the £100 bill, was not himself in good credit, and the firm that accepted the bill was not very well known. The drawer, hard pressed at the time and running around here and there in likely places to raise money upon it, had given the impression he would pay a second visit after inquiries had been satisfied, as to the standing of the acceptors. All the time he had kept on raising the discount he offered. Almost simultaneously inquiries had reached the bank from several sources.

It is scarcely to be wondered that the manager visualized not a single £100 bill, but many as being unloaded in London, and became puzzled as to what new exploit in high finance his clients with an overdraft were endeavouring to carry through.

Nor was the bank manager the only person who was made uneasy; for the eager money-hunter had concluded that some of the business houses who supplied the acceptors of the bill and who knew their transactions were satisfactory would be the very people to buy a good bill at a substantial discount. The consequence was inquiries, and in one or two cases suspicion and awkward pressure for payment resulted.

Dealing with the Man who Pays by Bills

Here should be noted one interesting point that can come under neither of the headings dealt with above.

It is that, if one desires to sell goods in a satisfactory manner to the trader who pays most of his accounts by bill, it is usually only possible to do so by falling in line with his custom, and sending him a bill to accept with each invoice, or statement.

Such a man may buy on credit but he is not usually the one who treats his credit accounts with the same consideration as other traders do.

He knows that he dares not let a bill go back unprovided for, because such an act of carelessness might easily lead to the collapse of his whole business.

He also knows that an open account in the Ledger is no immediate peril, as he has so many days in which to pay whatever happens but—a bill must be met.

A manufacturer who allowed two months' credit tried vainly to run an account with one such customer. The two months would spread out to four or even six and prevent business being done.

But the moment he offered to take an acceptance his proposal was at once agreed to, and from that moment he had no more trouble, the bills were met on due dates, and the volume of business was naturally increased.

Kinds of Bills

Bills of exchange are of two kinds, Inland and Foreign. An Inland Bill is a bill which is, or on the face of it purports to be

(a) Both drawn and payable within the British Isles, or

(b) Drawn within the British Isles upon some person resident therein.

For the purpose of the Act, the term British Isles includes the Isle of Man and the Channel Islands. Any other bill, so says the Act, is a Foreign Bill.

Stamp Duty

The *ad valorem* stamp duty on inland bills of exchange is as follows—

Where the amount does not exceed	£10	.	2d.
Exceeding £10 but not exceeding	£25	.	3d.
" £25 "	£50	.	6d.
" £50 "	£75	.	9d.
" £75 "	£100	.	1s.


When the amount exceeds £100, the duty is 1s. for the first £100, and an additional 1s. for every £100 or fraction of a £100. When bills are drawn payable on demand, or on presentation, or at sight, or not exceeding three days after date or sight, no matter what the amount, the stamp duty is only 2d.; and a 2d. adhesive stamp may be used, provided the stamp is affixed at the time of issuing the bill and is properly cancelled by the drawer. Such bills are virtually cheques, hence the same stamp duty.

In all other cases, bills must be written on paper bearing an impressed stamp of the proper value. If a person deals with a bill of exchange improperly stamped, he renders himself liable to a penalty of £10.

If a bill is payable *with interest*, the stamp duty covers the interest, unless the amount of the interest is mentioned in the bill. Thus "£100 with interest" would require a 1s. stamp; but "£100 with £5 interest" would require a 2s. stamp.

Specimen of Inland Bill

No particular form of words is required by the Act, and the following form is quite usual in business—

INLAND BILL		
No. 134		LONDON, 1st March, 19..
<u>£420 due 4th June, 19..</u>		
	<p>THREE months after date, pay OF ORDER, the sum of Four Hundred and twenty pounds, value received.</p>	<p>Messrs. Arthur Bondman and Reeve</p>
To Mr. B. Stevens.	<div style="border: 1px solid black; transform: rotate(-45deg); padding: 5px; display: inline-block;"> Accepted, payable at Safe Bank, Westminster Common, B. Stevens. </div>	A. Brown.

Parties to a Bill

There are three parties to a bill, as follows—

1. Drawer, the person who writes out the bill, that is, the creditor to whom the money is owing; in the example, A. Brown.
2. Drawee, the person on whom the bill is drawn, and who, after acceptance, is called the acceptor; in the example, B. Stevens.
3. Payee, the person to whom the money is

payable; in the example, Messrs. Arthur Bondman and Reeve.

Where the drawer draws the bill payable to himself, the drawer and the payee are one and the same person, and consequently there are only two parties to the bill.

Other persons may become parties to the bill by endorsement, when the bill is negotiated. Immediate parties to the bill are those in direct relationship, as the drawer and acceptor, drawer and payee, endorser and his next endorsee. Remote parties to the bill are those not in direct connection, as the first and last endorser, an intermediate endorser, and the drawer or acceptor.

Draft and Acceptance

Previous to acceptance the bill is legally only a draft; which may, therefore, be termed the unaccepted form of the bill of exchange. When the drawee has written his signature across the face of it, the bill is then legally an acceptance. In business, however, it is commonly called a bill at either stage.

Domicile

A bill is said to be domiciled when the drawee, in accepting the bill, writes on it the place of

payment. If no place of payment is mentioned on it, the bill is then payable at the acceptor's usual place of business.

Tenor or Tenure of Bills

Bills vary greatly as to the times at which they are drawn. They may be drawn payable at sight, on demand, on presentation, after date, after sight, and so on.

Long Bills are those having a long period of currency, two months, three months, four months, and so on.

Short Bills are those which have a short currency or period to run before becoming due for payment ; such are those payable on demand or in less than ten days.

Sum Payable

The sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid—

(a) With interest.

(b) By stated instalments.

(c) By stated instalments, with a provision that upon default in payment of any instalment the whole shall become due.

(d) According to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill.

Where the sum payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the words is the amount payable.

Where a bill is expressed to be payable with interest, unless the bill provides otherwise, such interest runs from the date of the bill, or, if the bill is undated, from the issue of it.

Bill Payable on Demand

A bill is payable on demand—

(a) Which is expressed to be payable on demand, or at sight, or on presentation ; or

(b) In which no time for payment is expressed.

The bill is usually presented at the business address of the payer by the representative of a bank in the town, which may or may not be his own bank.

Even if the bill comes through his own bank, the banker will not pay it till it has been completed by his acceptance or balanced by a cheque.

If the creditor decides to pay he can either complete it in the usual way or give his own cheque against it.

A bill payable on demand on which no date of payment is expressed is sometimes held as security for a loan that is to be repaid upon some understood principle between two parties. It is a legal instrument that can be used if necessity arises, but such a document is frequently changed from time to time for a new bill as the debt increases or diminishes.

Bill Payable at a Future Time

A bill is payable at a determinable future time within the meaning of the Act which is expressed to be payable—

1. At a fixed period after date or sight.

2. On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a contingency is not a bill, and the happening of the event does not cure the defect. Thus, a bill payable at a person's death would be valid ; but a bill payable on a person's marriage would not be valid, even though the marriage took place.

Legal Liability of Drawer

The drawer of a bill, by drawing it, engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured, he will compensate the holder or any endorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken.

Date of Bill

A bill is not invalid by reason of its not being dated, being ante-dated, post-dated, or dated on a Sunday.

Where a bill expressed to be payable at a fixed period after date is issued undated ; or where the acceptance of a bill payable at a fixed period after sight is undated, any holder may insert therein the true date of issue or acceptance, and the bill is then payable accordingly. And should the holder in good faith and by mistake insert a wrong date, the bill cannot be avoided, but is still payable as if the date so inserted had been the true date.

d/d means days after date ; m/d means months after date ; d/s means days after sight.

Presentation Through a Bank

In these days of banks, traders' bills are usually made payable at a bank, and are then presented through the bankers. It is customary to advise the bank what bills are falling due, and to give instructions as to their payment.

Calculation of Time of Payment ; Days of Grace

All bills except those payable on demand, at sight, or on presentation, are subject to days of grace ; that is, three extra days must be allowed for payment beyond the date mentioned in the

bill. These three days used to be customary, and the law has now made them compulsory; and the bill is due and payable on the last day of grace.

When the last day of grace falls on Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation as a public fast or thanksgiving day, the bill is due and payable on the *preceding* business day. When the last day of grace is a bank holiday under the Bank Holidays Act, 1871, and other Acts, or when the last day of grace is a Sunday and the second day of grace is a bank holiday, the bill is due and payable on the *succeeding* business day.

If days of grace are not to be allowed, this fact must be specially mentioned in the bill by inserting the phrase "without days of grace," or by adding the word "fixed" after the time stated, as "on the 3rd May fixed."

Where a bill is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to run and by including the day of payment. In other words, only one end day or "extreme" must be counted. Thus, from 1st March to 7th June would be 98 days (30 in March, 30 in April, 31 in May, 7 in June).

To include 1st March would make the total 99 days; this procedure could only be justified if, against the time, the phrase "both dates inclusive," were added. 1st March and 7th June are both, what are called "end days" or "extremes." We may include which one we like, so long as we do not include both. Thus, 31 in March, 30 in April, 31 in May, 6 in June, would also give us the same total of 98 days. The former way, as mentioned in the Bills of Exchange Act, seems, however, preferable, and is certainly more usual than the other.

Where a bill is payable at a fixed period after sight, the time begins to run from the date of the acceptance if the bill is accepted, and from the date of noting or protest if the bill be noted or protested for non-acceptance, or for non-delivery.

The term "month" in a bill means calendar month. Thus, bills drawn on 28th Dec., 29th Dec., 30th Dec., 31st Dec. at 2 m/d would all mature on the same date, namely 3rd March. In leap years, February will, of course, be reckoned as having 29 days.

Acceptance

The acceptance of a bill is the signification by the drawee of his assent to the order of the

drawer. After the bill is drawn, it is sent, either by the drawer or the payee, to the drawee for acceptance. This is done by the drawee writing his signature across the face of the bill. The word "accepted" is generally prefixed, but is not legally necessary, as the Act says that "the mere signature of the drawee *without additional words* is sufficient."

It is the common practice to obtain acceptance as soon as possible, although there is no legal necessity until any time before the date of payment, unless the bill is payable after sight or expressly stipulates that it shall be presented for acceptance, in which cases it is necessary in order to fix the date of maturity.

A bill may be accepted before it has been signed by the drawer, when it is overdue, or after dishonour by non-acceptance or non-payment. It is quite usual for the drawer of a bill to omit his own signature until after its return accepted by the drawee; for otherwise the acceptor would be in possession of a complete bill of exchange, and could, if so disposed, negotiate it.

Kinds of Acceptance

An acceptance may be either (a) general, or (b) qualified.

A general acceptance assents without qualification to the order of the drawer. A qualified acceptance in express terms varies the effect of the bill as drawn. In particular, an acceptance is qualified which is—

(a) Conditional, that is to say, which makes payment by the acceptor dependent on the fulfilment of a condition stated therein;

(b) Partial, that is, an acceptance to pay part only of the amount for which the bill is drawn;

(c) Local, that is, an acceptance to pay only at a particular specified place. An acceptance to pay at a particular place is a general acceptance, unless it expressly states that the bill is to be paid there only and not elsewhere;

(d) Qualified as to time, as when a bill for two months is accepted for four;

(e) The acceptance of one or more of the drawees, but not of all.

The holder of a bill may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance, he may treat the bill as dishonoured by non-acceptance.

When a bill is duly presented for acceptance and is not accepted within the customary time (usually twenty-four hours), it must be treated as dishonoured by non-acceptance, or else the

holder will lose his right of recourse against the drawer and indorsers.

Referee in Case of Need

The drawer of a bill, and any endorser, may insert in the bill the name of a person to whom the holder may resort in case of need, that is, in case the bill is dishonoured by non-acceptance or non-payment. Such person is called the "referee in case of need." It is in the option of the holder to resort to the referee in case of need or not, as he may think fit.

Negotiation of a Bill

As a bill of exchange is a negotiable instrument, it may be transferred from one person to another, who then acquires all the rights in it. Any holder may transfer a bill unless the bill contains words prohibiting its transfer (such as a restrictive endorsement).

If a bill is payable to bearer, then it is transferable simply by delivery; if payable to order, it is transferable by endorsement and delivery; that is, it requires the holder's signature on the back of it before being passed on. In any case it is always advisable to obtain the endorsement of a transferor in order to make him liable as a party to the bill, which he would not otherwise be.

Negotiable Instruments

Partly by custom and partly by statute law, certain documents, including bills of exchange, have acquired negotiability. The characteristics of negotiable instruments are—

1. The property in them, and not merely the possession, passes by delivery.
2. The holder in due course is not prejudiced by any defects of title on the part of the transferor or any previous holder, even though such prior party may have stolen the bill.
3. The holder can sue upon them in his own name.

Generally speaking, if the holder's title can be made good through theft, then the document is a negotiable one; if not, then it is not negotiable.

The following have also become negotiable instruments—cheques, promissory notes, bank notes, exchequer bills, coins of the realm, exchequer bonds, dividend warrants, share warrants, scrip, bearer debentures, East India bonds, and bonds of Foreign and Colonial Governments.

It is rather important that the term "through

theft" shall be understood. It does not mean that the holder of a stolen document of this nature is to be held above inquiry or outside the scope of the law, all that is meant is that if a man acts in a *bona fide* manner, he may accept negotiable securities without risk of loss.

Where a number of documents have been stolen, those with some special characteristic of their own which makes them easy to trace are more useful to the police than those that have no such mark.

A theft of £1 or 10s. currency notes affords little clue, as presumably any shopkeeper would take them from a stranger without question.

A £5 note may be a little easier to trace as long as it is being transferred among poor persons or those of doubtful character, but along the line of its transfers, once a responsible person accepts it in good faith no more can be said.

£50 and £100 notes constitute better clues, but their value is undiminished once a man of substance deals in them in an obviously honest manner.

A bill of exchange carries the same rights as a currency note or a coin of the realm, provided the names upon it are not forged. But obviously in the case of it being stolen it would afford assistance to the police in just the same way as a note of large denomination would do.

Good Faith

By the Bills of Exchange Acts, a thing is deemed to be done in good faith, within the meaning of the Acts, where it is in fact done honestly, whether it is done negligently or not.

Endorsement of a Bill

The requisites of a valid endorsement are that it must be written on the bill itself and be signed by the endorser. The simple signature of the endorser *without additional words* is sufficient. When the number of endorsements is so numerous that the space on the back of the bill is insufficient to receive all the signatures, a slip of paper, termed an allonge, is pasted on to the bill to receive any further endorsements.

An endorsement written on an allonge, or on a "copy" of a bill is deemed to be written on the bill itself. The first person to endorse on an allonge should write his signature partly on the bill and partly on the allonge, instead of wholly on the allonge. This will prevent the two being separated, and the endorsement being fraudulently attached to a bill of larger amount.

Where, in a bill payable to order, the payee or endorsee is wrongly designated, or his name misspelt, he may endorse the bill as therein described, adding, if he thinks fit, his proper signature.

Kinds of Endorsements

An endorsement may be in blank or special. It may also contain terms making it restrictive.

An endorsement in blank specifies no endorsee, and a bill so endorsed becomes payable to bearer.

A special endorsement specifies the person to whom, or to whose order, the bill is to be payable, as "pay Charles Davis or order."

A restrictive endorsement prohibits the further negotiation of the bill, as "pay Charles Davis only," or "pay Charles Davis for the account of Elvers & Co.," or "pay Charles Davis or order for collection."

Where any person is under obligation to endorse a bill in a representative capacity, he may endorse the bill in such terms as to negative personal liability. The endorsement *sans recours* (without recourse to me) is thus often used by persons who have been acting as agents and not as principals.

Consideration

The words "for value received" are usually written in a bill, but are not legally necessary, as a bill is not invalid by reason that it does not specify the value given, or that any value has been given therefor. Moreover, every party whose signature appears on a bill is *prima facie* deemed to have become a party thereto for value.

Bills drawn in the usual course of business, for valuable consideration, are called "Trade Bills." Bills put into circulation for the convenience of one or more parties, and for which no value has been given, are called "Accommodation Bills."

An accommodation party to a bill is a person who has signed a bill as drawer, acceptor, or endorser, without receiving value for it, and for the purpose of lending his name to some other person. An accommodation party is liable to a holder for value; and it is immaterial whether, when such holder took the bill, he knew such party to be an accommodation party or not.

Holder in Due Course

A holder in due course is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely—

(a) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact.

(b) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

Every holder of a bill is *prima facie* deemed to be a holder in due course.

Presentation for Payment

Except in a few special instances, a bill must be duly presented for payment, otherwise the drawers and endorsers will be discharged from their liability.

A bill payable on demand must be presented within a "reasonable" time. A bill not payable on demand must be presented on the due date at the place of payment or address of drawee or acceptor mentioned in the bill; or if this is not specified, at the drawee's or acceptor's place of business if known; and if not, at his ordinary residence if known; and if not, at his last known place of business or residence, or wherever he can be found. Where authorized by agreement or usage, a presentment through the Post Office is sufficient. Presentation for payment is not necessary in order to make an *acceptor* liable.

Duty of Holder

Where the holder of a bill presents it for payment, he must exhibit the bill to the person from whom he demands payment, and when a bill is paid the holder must forthwith deliver it up to the party paying it.

Discharge of Bill

A bill is discharged by payment in due course by or on behalf of the drawee or acceptor. "Payment in due course" means payment made at or after the maturity of the bill to the holder thereof in good faith and without notice that his title to the bill is defective.

Where an accommodation bill is paid in due course by the party accommodated, the bill is discharged.

When the acceptor of a bill is or becomes the holder of it at or after its maturity, in his own right, the bill is discharged.

Where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon, the bill is discharged.

Dishonour by Non-payment

A bill is dishonoured by non-payment

(a) When it is duly presented for payment and payment is refused or cannot be obtained ; or

(b) When presentment is excused by the Act and the bill is overdue and unpaid.

When a bill is dishonoured by non-payment, an immediate right of recourse against the drawer and endorsers accrues to the holder.

When a bill is dishonoured by non-acceptance or non-payment, notice of dishonour must be given to the drawer and each endorser, or they will be discharged from their obligations. The notice may be given in writing or by personal communication.

The return of a dishonoured bill to the drawer or an endorser is, in point of form, deemed a sufficient notice of dishonour. Notice must be given immediately after dishonour or within a reasonable time. Each party who receives notice of dishonour is allowed reasonable time to give notice to antecedent parties to the bill.

Where a notice of dishonour is duly addressed and posted, the sender is deemed to have given due notice of dishonour, notwithstanding any miscarriage by the Post Office. There are, however, certain cases mentioned in the Act in which notice of dishonour is dispensed with.

Noting and Protest of a Bill

The words "noting" and "protesting" are frequently met in connection with bills. These terms have reference to a course of procedure that can be taken when bills have been dishonoured either by non-acceptance or non-payment.

The holder of the bill may hand it to a notary public who presents the bill a second time to the drawee or acceptor for acceptance or payment as the case may be, and unless the requirements are duly met, the facts of the case are noted upon the document itself or upon a paper attached to it.

It is not necessary to get Inland Bills noted in order to retain legal rights of recovery against drawer and endorsers, but it is usually done in order to have official evidence of dishonour in case it becomes necessary to sue upon the bill. But foreign bills must be noted and protested when they are dishonoured. If this is not done the drawers and endorsers are discharged from liability.

A bill which has been protested for non-acceptance may be subsequently protested for

non-payment. Provided a bill is duly noted on the day of its dishonour, or not later than the next business day, the protest may be extended subsequently as of the same date as the noting.

A bill must be protested at the place where it is dishonoured, unless it has been presented through the Post Office, when it may be protested at the place to which it is returned by post.

Where the acceptor of a bill becomes bankrupt or insolvent or suspends payment before it matures, the holder may cause the bill to be protested for better security against the drawer and endorsers. The noting and protest is the only recognized evidence of dishonour in many foreign courts.

Protest

A protest must contain a copy of the bill, and must be signed by the notary making it, and must specify—

(a) The person at whose request the bill is protested ;

(b) The place and date of protest, the cause or reason for protesting the bill, the demand made, and the answer given, if any, or the fact that the drawee or acceptor could not be found.

It is not necessary to protest a bill in order to make the *acceptor* liable.

Damages on Dishonour

Where a bill is dishonoured, the measure of damages, deemed to be liquidated damages, is as follows—

1. The holder may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, and an endorser who has been compelled to pay the bill may recover from the acceptor or from the drawer, or from a prior endorser—

(a) The amount of the bill ;

(b) Interest thereon from the time of presentment for payment if the bill is payable on demand, and from the maturity of the bill in any other case ;

(c) The expense of noting, or, when protest is necessary, and the protest has been extended, the expenses of protest.

2. In the case of a bill which has been dishonoured abroad, in lieu of the above damages, the holder may recover from the drawer or an endorser, and the drawer or an endorser who has been compelled to pay the bill may recover from any party liable to him, the amount of

the re-exchange, with interest thereon until the time of payment.

Acceptance for Honour *supra* Protest

Where a bill of exchange has been protested for dishonour by non-acceptance, or protested for better security, and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill *supra protest*, for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn.

A bill may be accepted for honour for part only of the sum for which it is drawn.

An acceptance for honour *supra protest*, in order to be valid, must (a) be written on the bill, and indicate that it is an acceptance for honour, (b) be signed by the acceptor for honour.

Where an acceptance for honour does not expressly state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawer. Where a bill payable after sight is accepted for honour, its maturity is calculated from the date of the noting for non-acceptance, and not from the date of the acceptance for honour.

Where a dishonoured bill has been accepted for honour *supra protest*, or contains a referee in case of need, it must be protested for non-payment by the drawee (if he refuses payment on presentation of the bill to him) before it is presented for payment to the acceptor for honour, or referee in case of need.

When a bill of exchange is dishonoured by the acceptor for honour, it must be protested for non-payment by him.

The following is an example of an Acceptance for Honour—

Accepted *supra protest*, or Accepted for the honour and account of (drawer or endorser), with £ s. d. noting charges and expenses.

F. Stampers.

Payment for Honour *supra* Protest

Where a bill has been protested for non-payment, any person may intervene and pay it *supra protest* for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. Payment for honour *supra protest*, in order to operate as such and not as a mere voluntary payment, must be attested by a notarial act of honour, which may be appended to the protest or form an extension of it.

Lost Bill

Where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer to give him another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost is found again. If the drawer, on request, refuses to give such duplicate bill, he may be compelled to do so.

FOREIGN BILLS

By Sect. 4 of the Act, a Foreign Bill is any other bill which does not come within the definition of an Inland Bill. It is usually defined as a bill drawn in one country, but payable in another.

Such bills generally bear the phrase "value received" or "value in account," and are commonly drawn in sets of three, which are termed "vias." Each via is numbered, and is expressed to be payable only on condition that the other two are unpaid. The three forms are sent off at different times, in order to diminish the risk of losing the bill, and to prevent delay arising from such loss.

Sola Draft or Sola of Exchange

The term "Sola," "Sola Draft," "Sola of Exchange" which is often seen on a foreign bill of exchange, means that it is the sole copy of the bill, i.e. that the bill has not been drawn in a set.

The mail service is much more regular and reliable nowadays than it was formerly; and therefore one copy, or perhaps a first and second of exchange, are considered sufficient, especially where the countries are fairly near to the place of origin of the bill.

Bill Drawn in a Set

Where a bill is drawn in a set, each part of the set being numbered, and containing a reference to the other parts, the whole of the parts constitute one bill. The acceptance may be written on any part, and it must be written on one part only.

Any person who accepts, or any person who endorses, more than one part will be liable on the said parts as if they were separate bills. With these exceptions, where any one part of a bill drawn in a set is discharged by payment or otherwise, the whole bill is discharged.

Stamp Duty on Foreign Bills

Three cases must be distinguished.

1. On bills drawn in the United Kingdom, but payable out of the United Kingdom (e.g. drawn in London and payable in New York), the stamp duty is the same as for Inland Bills, and must be *impressed* ;

2. On bills drawn out of the United Kingdom, but payable in the United Kingdom (e.g. drawn in New York and payable in London), the stamp duty is the same as for inland bills, but special *adhesive* foreign bill stamps must be used ; and

3. On foreign bills drawn out of the United Kingdom and expressed to be payable out of the United Kingdom (e.g. drawn in Hamburg and payable in New York), but endorsed, negotiated, or actually paid *within* the United Kingdom, the stamp duty is—

Up to £50, the same as an inland bill ;

Exceeding £50, but not exceeding £100, 6d.

Exceeding £100, for every £100 or any part thereof, 6d.

In this case also, the stamp must be the adhesive foreign bill stamp.

In all three cases, if the bill is payable on demand, or at sight, or on presentation, or not exceeding three days after date or sight, the stamp duty is the same as for a foreign cheque, only 2d., and a 2d. postage stamp may be used. Adhesive foreign bill stamps are to be used only on foreign bills drawn out of the United Kingdom.

Only one part or via of a foreign bill needs stamping, and the adhesive foreign bill stamps must be affixed by the first person dealing with the bill in the United Kingdom.

The stamps which may be necessary, in foreign countries, will be affixed by the foreign merchant, and debited to the account of the English merchant.

To preserve legal rights, a foreign bill should be correctly stamped both with foreign and English stamps ; but English legal rights are preserved, if the bill is correctly stamped in accordance with English laws.

It should be noted that bills drawn in the Channel Islands and the Isle of Man are, for the purposes of the Bills of Exchange Acts, *inland* bills ; but, for the purposes of the Stamp Act and stamp duty, they are regarded as *foreign* bills, i.e. they require the adhesive stamp instead of the impressed one.

Specimen of Foreign Bill

No special form of bill is required by the Act, but a form in common use is given below.

Sum Payable

By the Bills of Exchange Acts, 1882 to 1917, the sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid—

“According to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill.”

The amount of a foreign bill is often stated in the currency of the country where it is payable. Where a bill is drawn out of, but payable in, the United Kingdom, and the sum payable is not expressed in the currency of the United Kingdom, the amount, in the absence of some express stipulation, is calculated according to the rate of exchange for sight drafts at the place of payment on the day the bill is payable.

Usance

Foreign bills are usually drawn at one or more “usances,” that is, times of payment as

FIRST OF EXCHANGE

LONDON,

25th February, 19..

Exchange for £650.

7s.
Stamp

THIRTY days after sight pay this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) to..... MM. Morin et Fils.....or ORDER the sum of Six hundred and fifty pounds, value received in account.

To MM. Bassier et Cie,
Marseilles.

Henry Robson.

fixed by custom. Thus, the usance between London and New York is sixty days after sight (60 d/s); between London and Bombay, thirty days after sight (30 d/s).

Foreign bills are generally drawn payable "after sight." In such cases, the acceptor must date his acceptance, as the time for payment begins to run from the date of the acceptance, and not from the date of the bill. This gives the drawee his full period of credit. The time is also stated in "days"; and thus the drawee does not lose one day in four of the months and three in February, as he does when the time is stated in "months."

If every month were a thirty-one day month, it would not matter whether the time was stated in days or months; but, in the present state of our calendar months, the difference in time is important. Further examples of Foreign Bills are shown on page 179.

Assuming the last two bills, both drawn, and expressed to be payable abroad, to be actually paid, endorsed, or negotiated in the United Kingdom, they would then require stamping with adhesive foreign bill stamps.

The stamps would be in accordance with the English value of the currency, calculated by the rate of exchange for sight drafts on the date of the bills. This must not be confused with the rate of exchange for sight drafts ruling on the date the bills are payable; this particular rate would only be used for determining the *sum payable*, and not for purposes of stamp duty.

Foreign Bills Bearing Two Dates

Some foreign bills have two dates on them owing to the two methods of dating, called the old style and the new style respectively. These are due to the discrepancy between the Julian and the Gregorian Calendars.

In 46 B.C., Julius Caesar reformed the calendar, making it begin with 1st January, and also making the solar year consist of 365 days. The solar year, however, is actually some hours, minutes, and seconds longer than this.

In A.D. 1582, Pope Gregory XIII adjusted the resulting errors in the time, by dropping 10 days out of that particular year. Roman Catholic countries immediately adopted the Gregorian Calendar, and Protestant States followed gradually; but Russia and the Greek Church still adhered to the old Julian Calendar.

In 1752 England, by Act of Parliament, adopted the new style; 11 days were dropped out of the year, and 3rd Oct. called 14th Oct.

The difference has increased by 1 day in each successive century, and is now 13 days. To avoid trouble and possible errors, bills drawn in Russia, Bulgaria, Serbia, Greece, etc., and destined for foreign parts, usually bear two dates, e.g. 6/19 Mar., so that the due date can be calculated according to both calendars.

Days of Grace

There are no days of grace in France, Russia, Italy, Holland, Belgium, Norway, Sweden, Denmark, and in New York State. If an English bill is payable in one of these countries, days of grace cannot be claimed; but on all foreign bills payable in England (except those payable on demand) three extra days must be allowed. With foreign bills the due date is determined according to the law of the place where it is payable.

Foreign Bills Drawn in Sterling

It is quite usual for English merchants to draw on their foreign customers in India, the East, and South America, in sterling instead of in the foreign currency of the country where the bill is payable. The bill generally mentions a rate of exchange at which the bill is to be paid. The English merchant thus protects himself against the violent fluctuations of the exchange due to war, panic, and internal disturbances.

However low the exchange falls, the foreign customer must provide sufficient of it to realize the stipulated sterling amount. On the other hand, the foreigner stands a chance, if the rates are favourable to him, of making a profit on the exchange.

Procedure with Foreign Bills

Foreign bills are not usually sent for acceptance and return, as is usual with inland bills. Where the drawer has both a debtor and a creditor in the foreign country, he will draw on his debtor payable to his creditor.

On receipt of the bill, the creditor will obtain the debtor's acceptance and at maturity will collect the money and then credit the account of the drawer.

In order to show how this operates let us take the case of a British firm purchasing goods from an American firm.

Messrs. Appledore & Instow, Ltd., of Manchester wish to buy a parcel of tinned peaches from the New York Fruit Co. Inc. The value of the peaches is £3,000.

FIRST OF EXCHANGE

Exchange for \$3,000.7s.
Stamp

AT sixty days' sight pay this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) to the ORDER of *Messrs. Bolton & Locke*, the sum of Three thousand dollars, value received, and to the credit of account as per Advice.

Messrs. Bolton & Locke,
New York.

LONDON,
15th February, 19..

A. Trumper.

PREMIERE DE CHANGE

Paris,
le 14 janvier, 19..

Timbre

À SOIXANTE jours de vue payez contre cette PREMIERE de CHANGE (Seconde et Troisième ne l'étant) à l'ordre de *Messieurs Lecompte et Cie*, la somme de francs quatre mille, valeur reçue en marchandises, et vous passerez à compte suivant ou sans avis.

A Monsieur O. Lagrange,
à L.
No. 576. Au besoin chez MM. X et Cie.

Bon pour Francs, 4,000.

P. Dubois.

PRIMA-WECHSEL

Wien,
den 10 ten Mai, 19..

Stempel

SECHZIG Tage nach Sicht dieses unseres PRIMA-WECHSELS (Sekunda und Tertia von demselben Datum und Betrage unbezahlt) zahlen Sie an die Ordre der *Herren Schaden und Sohn*, die Summe von Vier Tausend Mark, den Wert erhalten, und stellen solchen auf Rechnung laut Bericht.

An Herrn Johann Schneider,
in L.
No. 134. Im Notfalle bei Herrn F. Uber.

Gut Fur Rm. 4,000.

Adhesive
Foreign
Bill
Stamp

Wilhelm Bohm.

At the moment of buying they find that The Fifth Avenue Imports Co. Inc. of New York owe them £2,500, and Fenderson & Brothers of Brooklyn owe them £1,000.

As the New York firm only buy at intervals, and the Brooklyn firm are constantly taking packages from them, Messrs. Appledore & Instow draw two bills, the first for £2,500 on The Fifth Avenue, and the balance of £500 on Fenderson Brothers.

These they send to the New York Fruit Co., and that company, on receipt, send the bills across to the two American firms asking them to write their acceptances across the bills.

If this is duly done all is well, provided that the firms honour the bills when they are due for payment.

In this way there is no need to take any round-about methods for sending the money: the American firms who send goods to England receive the money for them from American firms who have received goods from England.

It will be seen that by these means goods sent from one country to another are usually paid for in goods.

Now let us suppose that Messrs. Appledore and Instow, Ltd., of Manchester have no amounts due to them from American firms, but are buying the goods in the ordinary way of business.

They can give the New York firm permission to draw upon them, or if they have plenty of money available they can purchase American bills in this country and send them in payment.

In either case the British firm has the advantage or disadvantage, as the case may be, of the state of the exchange between the two countries at the time of the transaction. But in the latter case the reason for the exchanges being against them or in their favour is more clearly understandable.

Supposing American firms have been buying very largely in this country, and have not been selling quite as freely as usual, then there will be a great many American bills at the banks and in the hands of Bill brokers, and if this state of things continues then the banks and brokers slightly reduce the price that they will give for them.

This causes a slight fall in the value of American money as reckoned in British money, and the exporter, able to buy American bills somewhat lower than usual finds, it pays him to do so, and the importing business receives a stimulus.

If this has been the case when Messrs. Appledore & Instow buy American bills in order to pay an American debt, then they save a little. In other words, exchanges are in their favour.

But supposing the movements have all been the other way: then American paper will be scarce, banks and brokers will demand more for it, and importing will be discouraged.

It will be seen from the above that the system of bills of exchange constitutes one of the most useful methods in the commercial world, as it allows the natural flows of trade to adjust themselves. It serves as a stimulus to exporter and importer at the time they most need it, and becomes a check upon their activities when they are too optimistic.

Much of the above has little to do with the actual office work involved in the use of bills, but an understanding of the reasons for fluctuations in prices and rates of exchange is useful to those who deal in bills.

Many of these transactions in which bills are bought and sold are carried on in the banks and among the bill brokers, and do not affect the ordinary trader.

In many cases the drawer will draw the bill payable to his own order, endorse the bill, and discount it or sell it to his banker, who will probably have agents or correspondents in the particular place where the bill is payable. The bill may also be disposed of to the bill brokers and foreign bankers.

Noting and Protest

Where a foreign bill has been dishonoured by non-acceptance, it must be duly protested for non-acceptance, and where such a bill, which has not been dishonoured previously by non-acceptance, is dishonoured by non-payment, it must be duly protested for non-payment. If it be not so protested the drawers and endorsers are discharged. In foreign courts, the protest is the only recognized evidence of dishonour.

Damages on Dishonour of Foreign Bill

In the case of a bill which has been dishonoured abroad, in lieu of the usual damages (mentioned under inland bills), the holder may recover from the drawer or an endorser, and the drawer or an endorser who has been compelled to pay the bill may recover from any party liable to him, the amount of the re-exchange with interest thereon until the time of payment.

Re-exchange

This is the loss resulting from the dishonour of a bill in a country different from that in which it was drawn or endorsed. The re-exchange is ascertained by proof of the sum for which a bill at sight must be drawn in order to realize, at the place of dishonour, the amount of the dishonoured bill, the expenses of protest, postage, commission, brokerage, and cost of stamp if a re-draft is necessary.

PROMISSORY NOTES

Definition

By the Bills of Exchange Acts, 1882 to 1917, a Promissory Note is defined as—

An unconditional promise in writing made by one person to another, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.

Inland and Foreign Notes

A note which is, or on the face of it purports to be, both made and payable within the British Islands, is an Inland Note. Any other note is a Foreign Note.

Stamp Duty on Promissory Notes

The stamp duty on notes is the same as for bills of exchange, except that it is always *ad valorem*, whether payable on demand or within three days, or otherwise.

Specimen of Note

No particular statutory form of Note is laid down by the Act, but the following is a common specimen—

writes out the note, i.e. the debtor; in the example given, Thomas Copett. The payee is the person who is to receive the money, i.e. the creditor; in the example given, Fred Normand.

Legal Liability of Maker

The maker of a promissory note by making it—

1. Engages that he will pay it according to its tenor.
2. Is precluded from denying to a holder in due course the existence of the payee and his then capacity to endorse.

Use of Promissory Notes

Promissory notes are used chiefly for loan transactions. Like bills of exchange they are negotiable instruments, and can be transferred for value, unless payable to one person only. If they are payable to bearer, they are transferable by simple delivery; if payable to order, they are transferable by endorsement and delivery. They may be discounted, and they are subject to days of grace, unless payable on demand.

In book-keeping, promissory notes are, if not very numerous, treated as bills. In a Loan Office, however, a separate Promissory Notes Receivable Account is opened.

Note Payable on Demand

A promissory note, like a bill of exchange, is payable on demand—

- (a) Which is expressed to be payable on demand, or at sight, or on presentation; or
- (b) In which no time for payment is expressed.

PROMISSORY NOTE

£130.

LONDON,

7th February, 19..

2s.
Stamp

TWO months after date I promise to pay to *Mr. Fred Normand*, or ORDER, the sum of One hundred and thirty pounds, for value received.

Thomas Copett.

Parties to a Note

There are two parties to a Note, the maker and the payee. The maker is the person who

Presentment for Payment

Where a promissory note is in the body of it made payable at a particular place, it must be

presented for payment at that particular place in order to render the maker liable. In any other case presentment is not necessary in order to render the *maker* liable. Presentment for payment is necessary in order to render an *endorser* liable.

Joint Notes. Joint and Several Notes

Sect. 85 of the Bills of Exchange Acts says—

(1) A promissory note may be made by two or more makers, and they may be liable thereon jointly, or jointly and severally, according to its tenor.

(2) Where a note runs, "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note.

The following is a specimen of a joint note—

For this note to be a Joint and Several Note, it must be amended to read, "I promise to pay . . .," or "We and each of us promise to pay . . .," or "We jointly and severally promise to pay . . ."

The advantage of the Joint and Several Note is that it enables the holder to sue the makers not only jointly but individually.

Foreign Promissory Notes

A Foreign Promissory Note is any note that does not come within the legal definition of an Inland Note. Typical specimens are given below.

Foreign promissory notes made in the United

JOINT PROMISSORY NOTE

£80.

1s.
Stamp

THREE months after date, we promise to pay to *Mr. Reginald Tranter*, or ORDER, the sum of Eighty pounds, value received.

LONDON,

7th March, 19..

W. Beaker.
S. Plankes.

FOREIGN PROMISSORY NOTE

Rupees 1,500.

Impressed
Stamp

THREE months after date, I promise to pay to *Mr. L. K. Collado*, or ORDER, the sum of One thousand five hundred Rupees, value received.

Payable at Bank of India,
Bombay.

LONDON,

10th April, 19..

P. Byjambji.

BILLET À ORDRE

Paris,

le 8 Avril, 19..

Timbre

À TROIS mois de date je payerai à *Monsieur A. T. Frampeur*, ou à son ORDER, la somme de francs Trois mille, valeur reçu en espèces.

Bon pour Francs 3,000.

Paul Frappé.

EIGNER WECHSEL

Wien,
den 8 ten Mai, 19..

Gut Fur Rm. 3,000.

Stempel

DREI Monate nach heute zahle ich gegen diesen Sola-Wechsel an Herrn Karl Hulfresch, oder dessen Ordre, die Summe von drei tausend Reichsmark, deren Wert ich bar erhalten habe.

M. Preisinger.

Kingdom, payable to persons resident *out* of the United Kingdom, must be stamped as *inland* bills, i.e. with the *impressed ad valorem* stamp; adhesive foreign bill or note stamps must be affixed only to foreign notes made *out* of the United Kingdom.

If a foreign promissory note is dishonoured, protest thereof is unnecessary.

BANK POST BILLS

Nature, Origin, and Use

Bank of England Post Bills are promissory notes to order, issued by the Bank and its ten branches, for any sum from £10 to £1,000, and are payable at 7 or 60 days after sight. They do not require stamping, neither are they subject to days of grace.

The bills originated, in 1738, at the suggestion of the Postmaster-General, owing to the frequent highway robberies of the mails. The owner of a seven days' bill had time to give notice of any robbery that had taken place, and thus prevent payment being made to any unauthorized person.

A post bill can be obtained at the Bank or

any of its branches by simply paying down the money for the bill. The Bank's remuneration consists in having the use of the money for the time being.

A typical specimen is given below.

These bills are gradually falling into disuse. The establishment, by the large joint-stock banks, of branches throughout the Kingdom, and the modern facilities for payment provided by cheques on current account, have caused them to be largely superseded. In many cases, too, they have been replaced by the ordinary banker's draft. The post bills still issued appear in the Bank's Return under the heading of "Seven Day and Other Bills."

BANK DRAFTS

Nature and Use

Bankers' Drafts are bills of exchange drawn by one banker upon another. They can be purchased from any banker, and can be made payable in any part of the United Kingdom, or in any country abroad, and are thus a very convenient means of remitting money. They provide a certain amount of security against

BANK OF ENGLAND POST BILL

No

LONDON,

4th March, 19..

AT seven days' sight I promise to pay this my sole Bill of Exchange to.....Mr. A. Reeve Porters
..... or ORDER the sum of One hundred and fifty pounds sterling for value received of Mr. Thomas Allanby.

For the Governors and Company of the Bank of England,

A.M.H.,

Chief Cashier.

£150.

fraud, as the paying banker is notified of the name of the payee and also of the amount of the draft.

A small commission is charged on inland drafts, but with foreign drafts the commission is generally covered by the rate of exchange at which the draft is purchased from the banker.

BANK NOTES

At the time of writing an enormous increase in the issue of Bank Notes is being provided for, to take the place of the Currency Notes of £1 and 10s. denomination issued during the war and afterwards.

In the 1928 Budget speech, the Chancellor of the Exchequer outlined a future transfer of this issue to the Bank of England.

Thus an anomaly in currency is swept away, and another definite step forward is taken toward securing an unquestioned gold value of British currency.

It is an excellent addition to our security that in making the Bank of England the note-issuing agency a serious temptation to future governments in this land is very largely removed. Any student of the devastating after-effects of inflation knows how easily a government can purchase immediate prosperity by the artificial stimulus of printed money.

There may be later steps taken in the way of reducing the paper issue of this country, but the coming change largely bridges the last part of the way to the complete re-establishment of the gold standard in this country.

Nature, Right of Issue, and Use

Bank Notes are promissory notes payable to bearer on demand, issued by English, Scotch, and Irish banks. Unlike ordinary promissory notes, however, they may be re-issued after payment, and usually are by Scotch and Irish banks, until they are too soiled or too worn for further use.

Notes once returned to the Bank of England are not re-issued, even if almost new, but are kept in safe custody for five years and then destroyed. Further, they are exempt from stamping, a composition in lieu of stamp duty being paid to the Government.

In England and Wales, notes have not been issued for sums of less than £5, but Scotch and Irish notes are issued for sums of £1 and upwards.

Formerly, the right of note issue was restricted to certain banks, called banks of issue. The

Bank of England and these banks had the exclusive right within a 65 mile radius of London; while the Bank itself had the monopoly for the City and three miles round.

As the last of these banks of issue was incorporated with Lloyds Bank in 1921, the Bank of England has now the sole right of note issue for the whole of England and Wales.

Bank of England notes form part of the currency, being legal tender for any sum exceeding £5. Owing to the use of the word "exceeding," it follows that a £5 note is not legal tender for an *exact* sum of £5, though it would be for an amount of £5 os. 1d.

The notes are not legal tender, however, at the Bank itself or at any of its branches, nor in Scotland or Ireland; but in these two countries they are quite readily accepted in payment. The Bank is bound by its charter to pay its notes in gold on demand.

Negotiability of Bank Notes

As Bank of England notes are negotiable instruments, the holder of a bank note, provided he has taken it *bona fide* and for value, can retain it against everybody, even against the lawful owner.

Although the Bank may have "stopped payment" of certain stolen notes, they are nevertheless liable to a *bona fide* holder for value. When sent by post, bank notes are, for greater safety, often cut in halves, one half being forwarded by one post, and the other sent by a later one. Before the note is presented for payment, the two halves must be pasted together; but the mutilation does not affect its negotiability.

Tests of the Genuineness of Bank Notes

The principal tests of the genuineness of the notes are the water-marks for "Bank of England," and for the amount of the note. These can be ascertained by holding the note up to the light and looking through it.

Numerous forgeries of £5 notes have taken place; some of these forged or "flash" notes have been headed "Bank of Engraving" instead of "Bank of England," and have been without the water-marks. Many shopkeepers still view £5 notes with a certain amount of suspicion; and it is quite usual for a customer, tendering a £5 note in payment of a purchase, to be asked to write his name and address on

the back of the note. Even banks, when asked to change notes for their customers, require them first to fill up and sign a special form.

A few years ago, in a prosecution for uttering forged notes, the following points were mentioned as evidences of a genuine £5 note—

1. Water-marks for the name of the Bank and the amount of the note.
2. Three rough edges and one smooth one.
3. A tiny piece of steel in the "i" of the word "Five."
4. The "F" in the sentence "For the Governors" left unfinished.

IOU

Of far less common occurrence than any of the preceding documents is the IOU.

Nature and Use

An IOU is a written memorandum employed for the purpose of acknowledging indebtedness. The letters IOU are merely an abbreviation for the phrase "I owe you," the sounds of both being identical. The following is a typical specimen—

<p>LONDON,</p> <p style="text-align: right;"><i>8th April, 19..</i></p> <p>To Mr. Arthur Reeve,</p> <p style="text-align: center;">IOU the sum of Thirty-seven pounds.</p> <p style="text-align: right;"><i>Peter Kimberleyes.</i></p> <p>£37.</p>
--

The above wording should not be departed from, for as it stands the document is neither a receipt nor an agreement, and therefore does not require a stamp. It must not contain any words which might be construed as a promise nor must a date of repayment be added, otherwise it would become a promissory note and need stamping accordingly. It is not a negotiable instrument. In law, it is accepted as evidence of an account between the parties mentioned, though not necessarily of the amount stated therein. The amount is sometimes stated only in figures, and sometimes both in writing and

figures. It is also advisable that the names of both the parties should appear.

Worked Example of Bill Books

The following are the particulars of a trader's bill transactions. All his own acceptances are made payable at the Safe Bank. It is desired to record these transactions in Bills Receivable and Bills Payable Books respectively—

May. 1. Drew on Smith & Finch at 1 m/d for £195, allowing them discount £5. Bill No. 117.

3. Received Smith & Finch's acceptance, payable at the Regal Bank, City.

Accepted Robinson & Co.'s draft of the 2nd inst. at 2 m/d in favour of Lewis & Son, £185 13s. 9d. Bill No. 83.

9. Received of Jenkins Bros., T. Lupin's acceptance to them for £123 11s. 5d., dated 9th March at 2 m/d, payable at Stripp's Bank, Holborn.

12 Gave Tompkins & Co. our acceptance, dated 11th inst., at 1 m/d for £98 10s. 6d.

Received Moon & Bell's acceptance of our draft of yesterday, at 3 m/d for £136 17s. 8d., payable at Bank of England, Liverpool.

16. Lord & Miller forwarded us A. Lovejoy's acceptance to them for £97 16s. 4d., payable at Midland Bank, Holborn. Bill drawn 15th April at 60 days' sight, acceptance being dated 25th April.

21. Received Tree & Lyons' draft on us of the 19th inst. at 1 m/d, in favour of Wade Bros. for £181 6s. 8d., discount allowed £4 13s. Returned same duly accepted.

Drew on Marshman & Bayes at 3 m/d for £221 19s. 8d., allowing discount £5 13s. 10d.

23. Received Marshman & Bayes acceptance, payable at Litto's Bank, Westminster.

27. Received G. Marigold's draft on us of yesterday's date for £206 16s. 4d. at 3 m/d. Returned same duly accepted.

30. Returned, duly accepted, W. Coleman's draft on us, dated 29th inst. at 3 m/d for £126 11s. 10d. in favour of Salmon & Mileham.

31. G. Higley forwarded us K. Manton's acceptance to S. Flower for £139 10s. 8d. Bill dated 29th March at 2 m/d, and payable at Joint Stock Bank, Hull.

Accepted R. Notley's draft on us, dated 21st May at 3 m/d for £133 3s. 10d., discount allowed £3 8s. 3d.

Bill No. 118 was duly met. No. 120 was discounted. No. 122 was dishonoured. No. 119 was endorsed over to Meslake & Co. on the 12th August. Acceptances No. 84 and No. 86 were duly honoured.

67		BILLS RECEIVED									
No. of Bill	Date Received	From Whom Received	Ledger Folio	Dis- count			Amount of Bill			Drawer	Acceptor
	19..			£	s.	d.	£	s.	d.		
117	May 3	Smith & Finch	161	5	-	-	195	-	-	Self	Smith & Finch
118	9	Jenkins Bros	162				123	11	5	Jenkins Bros.	T. Lupin
119	12	Moon & Bell	163				136	17	8	Self	Moon & Bell
120	16	Lord & Miller	164				97	16	4	Lord & Miller	A Lovejoy
121	23	Marshman & Bayes	165	5	13	10	221	19	8	Self	Marshman & Bayes
122	31	G. Higley	166				139	10	8	S. Flower	K. Manton
		G L.	23	£10	13	10					
		G.L.	21				£914	15	9		

35		BILLS PAY									
No. of Bill	Date Accepted	To Whom Given	Ledger Folio	Dis-count			Amount of Bill			Drawer	To Whom Payable
	19..			£	s.	d.	£	s.	d.		
83	May 3	Robinson & Co . . .	81				185	13	9	Robinson & Co. . .	Lewis & Son . . .
84	12	Tompkins & Co. . .	82				98	10	6	Tompkins & Co. .	Tompkins & Co. .
85	21	Tree & Lyons . . .	83	4	13	-	181	6	8	Tree & Lyons . .	Wade Bros. . . .
86	27	G. Marigold	84				206	16	4	G. Marigold . . .	G. Marigold . . .
87	31	W. Coleman	85				126	11	10	W. Coleman . . .	Salmon & Mileham .
88		R. Notley	86	3	8	3	133	3	1	R. Notley	R. Notley
		G.L.	24	£8 1 3							
		G.L.	22				£932	2	2		

ABLE BOOK

67

Where Payable	Date of Bill	Term	Due Date												Remarks
			Jan.	Feb.	Mar.	Apr.	May	Jun.	July	Aug.	Sep.	Oct.	Nov.	Dec.	
Regal, City	19.. May 1	1 m/d						4							Met C.B. 56 Endorsed to Meslake Discounted C.B. 63 Dishonoured C.B. 70
Stripps, Holborn	Mar. 9	2 m/d					12								
Bank of England, Liverpool	May 11	3 m/d								14					
Midland, Holborn	15	60 d/s } 25 April }						27							
Litto's, Westminster . . .	21	3 m/d								24					
Joint Stock, Hull	Mar. 29	2 m/d						1							

ABLE BOOK

35

Where Payable	Date of Bill	Term	Due Date												Remarks
			Jan.	Feb.	Mar.	Apr.	May	Jun.	July	Aug.	Sep.	Oct.	Nov.	Dec.	
Safe Bank	19.. May 2	2 m/d							5						Paid C.B. 53 Paid C.B. 62
" "	11	1 m/d						14							
" "	19	1 m/d						22							
" "	26	3 m/d								29					
" "	29	3 m/d									1				
" "	21	3 m/d								24					

SALES LEDGER

161 Dr.			SMITH & FINCH						Cr. 161		
19..			£	s	d.	19..			£	s	d.
May 1	To Balance	.	200	-	-	May 3	By Bill Receivable	67	195	-	-
							„ Discount	67	5	-	-
			<u>£200</u>	<u>-</u>	<u>-</u>				<u>£200</u>	<u>-</u>	<u>-</u>

162 Dr.				JENKINS BROS.								Cr. 162			
				£	s.	d.					£	s.	d.		
19..				123	11	5	19..								
May 1	To Balance	.	.				May 9	By Bill Receivable	.	.	67	123	11		
													5		

163 Dr.				MOON & BELL								Cr. 163			
				£	s.	d.					£	s.	d.		
19..				136	17	8	19..				67	136	17	8	
May 1	To Balance	.	.	.			May 12	By Bill Receivable	.	.	67				

164 Dr.				LORD & MILLER								Cr. 164			
				£	s	d.						£	s.	d.	
19..				97	16	4	19..					97	16	4	
May 1	To Balance	.	.	.			May 16	By Bill Receivable	.	.	67				

165 Dr.			MARSHMAN & BAYES						Cr. 165		
19..			£	s.	d.	19..			£	s.	d.
May 1	To Balance	.	227	13	6	May 23	By Bill Receivable	.	67	221	19
		.					„ Discount	.	67	5	13
		.	<u>£227</u>	<u>13</u>	<u>6</u>				<u>£227</u>	<u>13</u>	<u>6</u>

166 Dr.		G. HIGLEY										Cr. 166			
19..					£	s.	d.	19..				£	s.	d.	
May 1	To Balance	.	.	.	139	10	8	May 31	By Bill Receivable	.	.	67	139	10	8

BOUGHT LEDGER

81 Dr.		ROBINSON & CO.										Cr. 81			
19.. May 3	To Bill Payable	.	.	35	£ 185	s. 13	d. 9	19.. May 1	By Balance	.	.	.	£ 185	s. 13	d. 9

82 Dr.				TOMPKINS & CO.										Cr. 82																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
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83 Dr.		TREE & LYONS										Cr. 83		
19..						19..								
May 21	To Bill Payable	.	.	35	£	181	6	8	May 1	By Balance	.	.	.	£
	„ Discount	.	.	35		4	13	—						185
														19
						£	185	19	8					8

84 Dr.			G. MARIGOLD										Cr. 84		
19.. May 27	To Bill Payable	. . 35	£ 206	s. 16	d. 4	19.. May 1	By Balance	. . .				£ 206	s. 16	d. 4	

85 Dr.				W. COLEMAN										Cr. 85							
19..						£		s.		d.		19..				£		s.		d.	
May 31	To Bill Payable	.	.	35	126	11	10	May 1	By Balance	.	.	.	126	11	10						

86 Dr.				R. NOTLEY								Cr. 86			
19.. May 31	To Bill Payable	.	35	£	s.	d.	19.. May 1	By Balance	.	.	.	£	s.	d.	
	„ Discount	.	35	133	3	1						136	11	4	
				3	8	3									
				£136	11	4						£136	11	4	

GENERAL LEDGER

21 Dr.		BILLS RECEIVABLE										Cr. 21	
19.. May 31	To Sundry Debtors . . .	67	£ 914	s 15	d. 9								
22 Dr.		BILLS PAYABLE										Cr. 22	
						19.. May 31	By Sundry Creditors . . .	35	£ 932	s. 2	d. 2		
23 Dr.		DISCOUNTS ALLOWED										Cr. 23	
19.. May 31	To Sundry Debtors . . .	67	£ 10	s 13	d 10								
24 Dr.		DISCOUNTS RECEIVED										Cr. 24	
						19.. May 31	By Sundry Creditors . . .	35	£ 821	s. 1	d. 3		

CHAPTER XVI

DIVISION OF LEDGERS ; LOOSE LEAF LEDGERS

As explained in a previous chapter the Ledger is the principal book, because it contains the whole of a trader's transactions as entered from the subsidiary books and the Cash Book.

In actual practice, however, to have all the accounts in one Ledger would be very inconvenient both for the purpose of posting and for reference, as only one person at a time could use the book. We therefore find in business that the Ledger has various subdivisions, and that each Ledger has a distinctive name showing the class of accounts kept in it. The usual subdivisions of the Ledger are as follows—

1. Bought or Purchases Ledger, containing the *Creditors'* accounts.

2. Sales or Sold Ledger, containing the *Debtors'* accounts.

3. Impersonal Ledger, containing the *real or property* accounts, and the *nominal or gain and loss* accounts. Usually this ledger contains the Bought and Sold Ledger Adjustment Accounts (i.e. summarized Debtors' and Creditors' Accounts), and in such cases is more appropriately called the General Ledger. The term Nominal Ledger for this ledger is not correct when such ledger contains also the real and nominal accounts.

4. Private Ledger, containing the *Capital and Drawing Accounts* of the proprietor, or of the partners (if such be the case). It also contains the half-yearly or yearly Trading and Profit and Loss Accounts and Balance Sheets. This Ledger is really a part of the General Ledger, and is usually balanced with it.

In some businesses the General Ledger itself is called the Private Ledger, because of the nature of the accounts which it contains; but the name is not at all appropriate, since most members of the accounting staff usually have access to it for the purpose of posting and checking it.

The Private Ledger itself generally has a lock and key, and is accessible only to the chief clerk or accountant in most cases, and in others only to the proprietor and auditor.

Special Divisions of Ledgers

Although the general principles of ledger-keeping and posting are the same in every

business, where books are kept on double-entry principles, yet each business adopts such subdivisions of the Ledger as are most suitable for its own particular line.

Hence we find in different offices such ledgers as Bills Receivable and Bills Payable Ledgers, Agents Ledgers, Branch Ledgers, Consignment Ledgers, Accounts Current Ledgers, and Investment Ledgers. Sometimes the ledgers are merely memorandum ledgers, and sometimes part of the double-entry system.

Sectional Divisions of Ledgers

In many businesses the Bought Ledgers and Sales Ledgers are, for convenience in posting and reference, divided into sections (a) *alphabetically* as A-F, G-K, L-P, Q-S, T-Z; (b) *departmentally* as "A" Dept., "B" Dept., "C" Dept. (or Drapery Dept., Dress Materials Dept., Felts Dept.); or (c) *geographically* as Town, Country, Foreign (or European, American, Indian, Colonial), each section being itself a separate unit.

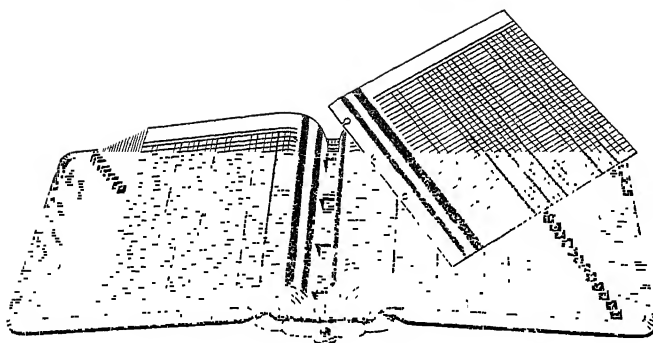
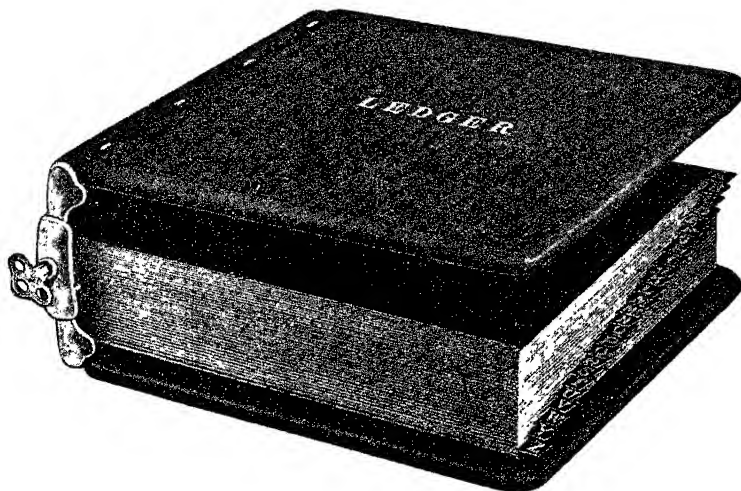
In small businesses the actual Ledgers were usually bound books with an index either at the beginning or the end of the book. The usual procedure was to allot three or more or less pages to an account, and if these pages became filled very quickly, the account was transferred to some other part of the book. It can be seen that if the accounts were at all active the alphabetical system with which the book was commenced was soon dislocated. Some accounts would have pages in different parts of the book, while others would barely fill a page, with the consequence that the Ledger would in a short time consist of a number of open accounts together with a number of filled-up leaves, and closed or "dead" accounts. This unsatisfactory state of affairs led many merchants and traders with growing businesses to explore the possibilities of the loose-leaf system.

Loose Leaf and Card Ledgers

Loose Leaf Ledgers are composed of separate sheets of paper ruled like the pages of an ordinary bound Ledger, the sheets being inserted in, or abstracted from, an expanding binder as and when required. The binders are of two kinds,

the Thong binder and the Metal-back binder, but each kind is provided with a patent self-locking device, which holds the leaves firmly and also prevents their removal except by, or with the permission of, the authorized holder of the key.

The locking device is very necessary when the



K. & J. LOOSE LEAF LEDGER

binder is being used as a Ledger, for in these it must not be possible to remove a leaf, other than by using force, without the use of the key.

The ruling of the sheet may, of course, be varied to suit individual requirements, and may not only be the ruling of a Ledger, but also that of any other book of accounting record, Journal, Cash Book, etc.

When used for Ledgers (their principal use at the present time), the sheets are usually arranged in alphabetical order, thus avoiding

the necessity for an index; for example, A1, A2, A3, etc., B1, B2, B3, etc., C1, C2, C3, etc. The number given to a customer when an account is first opened for him will thus appear on all sheets relating to his account. For instance, if John Leslie is the fifteenth customer whose surname begins with L, then L15 will always appear on the Ledger sheets of John Leslie's account.

If the account consists of more than one sheet, each sheet will be numbered consecutively, and will thus bear a separate subsidiary number, thus L15-1, L15-2, L15-3, and so on; so that the absence of an intermediate sheet would be at once conspicuous, and lead to an inquiry.

The accounts may also be grouped in districts in order to suit the convenience of travellers, or grouped in any other desired order, and possibly still alphabetically arranged so as to be self-indexing.

Two distinct binders or holders are kept. One, called the Current Ledger, contains the *live* accounts. The other, called the Dead Ledger, contains only the *dead* accounts. A chance transaction is, when paid, transferred to the Dead Ledger; but, if unexpectedly followed by further transactions, the account is re-transferred to the Current Ledger.

A certain number of printed sheets is held in reserve, and a register is kept by a person in authority, to whom the ledger-keeper must apply for fresh sheets when old ones are filled up, or when new accounts have to be opened.

Card Ledgers are similar in principle, the cards however, being kept in special trays or drawers. Guide cards, which project above the level of the other cards, facilitate reference, by indicating the sections or divisions of the drawer. The card tray or drawer is also fitted with a patent locking device, in order to prevent unauthorized removal of any of the cards.

Card Ledgers, while quite suitable for accounts

of debtors and creditors, can also be advantageously employed for statistical work, such as stock records, cost records or accounts, register of members of a joint-stock company, etc.

Advantages of Loose-leaf and Card Ledgers

The advantages of Loose-leaf and Card Ledgers as compared with bound books are as follows—

1. The current Ledger is not cumbered with closed or dead accounts, as the latter can be removed and filed separately. Nor does it contain a large number of blank pages as is the case with a bound Ledger.

2. There is no necessity for a Ledger Index, as the Ledger is self-indexing, owing to the sheets or cards being alphabetically arranged.

3. The task of opening new Ledgers, or of compiling new indexes, is entirely dispensed with.

4. The Ledgers are "perpetual" or continuous, as extra leaves or cards can be added for the new accounts from time to time.

5. The work of posting, rendering statements, and taking out balances is greatly facilitated, as various sheets may be allotted to several clerks at the same time, thus enabling the work to be much more expeditiously performed.

6. An account is continuous, not scattered about the Ledger, thus causing much backward and forward reference if the account is of any size.

There are also, in the case of Loose-leaf Ledgers, additional advantages over the bound books. For one thing, it is not necessary to transfer the balances from one book to another when the old one is filled. A new page is inserted and the balance carried forward, the old page remaining in its place until a payment is made.

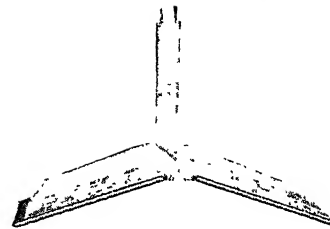
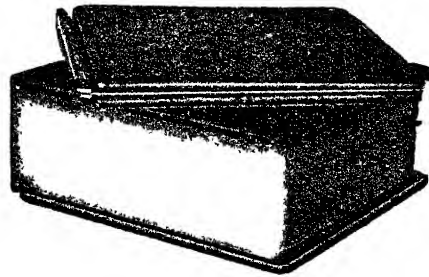
The leaves do not curve near the binding, making it very difficult to write upon them; and they are specially hinged, so that the writing surface is as flat as a pad and as firm as a rock.

Also, the cover is collapsible, which allows for expansion, and the book varies in thickness according to the number of pages it contains, and thus the covers are always parallel.

There is no sagging when the binder is holding only a few sheets, or bulging when holding a large number; the leaves are held in a vice-like

grip, and there is no possibility of the sheets becoming loose or working out of the book.

Accounts can be classified alphabetically, or geographically, or in any other way. It is as easy to find an entry as to look up a word in the dictionary.



LOOSE-LEAF LEDGER (KALAMAZOO)

Disadvantages of Loose-leaf and Card Ledgers

The principal disadvantages of Loose-leaf and Card Ledgers are the following—

1. The card or leaves may be accidentally or wilfully destroyed or lost.

2. Fresh cards or leaves may be fraudulently substituted for others, so as to commit or conceal fraud.

3. A doubt as to whether such Ledgers would be accepted as evidence in a court of law. To produce a few leaves or cards in court would be more to the advantage of all parties concerned, and would not bring the work of the counting-house to a standstill, as the production of several bound books might easily do.

It should also be borne in mind that fraudulent manipulation of figures goes on with *bound* Ledgers, yet the courts have not, for that specific reason, refused to allow such books to be produced in evidence where necessary.

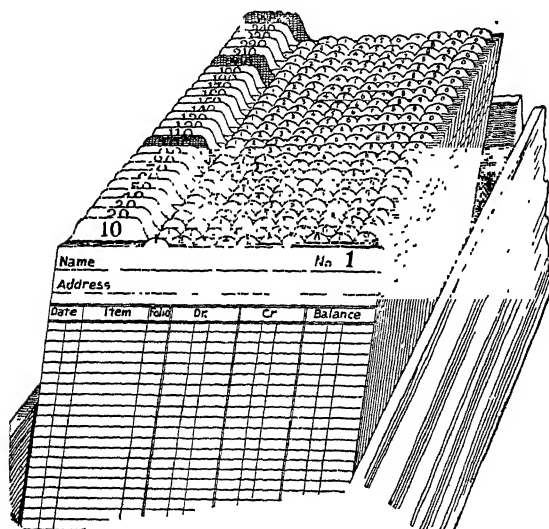
Card Ledger Illustration

The following illustration shows part of a Card Ledger, complete with guide cards. The ruling of the card is continued on the back; and the capacity of a card is larger than that of an ordinary ledger page.

The system is largely used by bankers, merchants, manufacturers, insurance companies, railway, gas, and water companies, and also by lawyers, physicians, and dentists. It greatly facilitates the clerical labour incidental to book-keeping, and results in far less inaccuracy.

Loose-leaf Ledgers versus Card Ledgers

The Loose-leaf Ledger is alleged to be superior to the Card Ledger for the following reasons—



CARD LEDGER

1. The *form* of the bound Ledger is maintained with all its consequent advantages, such as easier handling, etc.

2. The ledger sheets are larger than the cards, and are therefore less likely to get lost or displaced.

3. It is just as suitable for small as for large accounts. A much better idea of an account can be gained by looking over a few sheets than by glancing over numerous cards.

4. The usefulness of Card Ledgers is confined to the ordinary debtor and creditor rulings. More elaborate rulings are not possible on small-sized cards.

5. Card cabinets are expensive, bulky, and

take up a lot of room. One ledger, full of accounts, requires several drawers in a cabinet. The whole of the Ledger cannot conveniently be on the clerk's desk in front of him. Instead, therefore, of turning over the pages of a loose-leaf ledger, he must repeatedly turn to the cabinet and take out fresh drawers, which are heavy.

6. To make an entry on a card, means taking the card out of the drawer and afterwards replacing it, thus occupying much more time than merely turning over the leaves of a loose-leaf ledger. The latter is quite flexible, and can be easily posted; and yet, at the same time, it may have a locked binder, thus making it impossible for any sheet to be removed without proper authority.

7. Cards do not wear so well as loose-leaf sheets. They soon get dirty and damaged by constant handling, while finger-marks tend to make the writing and figures indistinct if not illegible.

On behalf of the Card System it is contended that cards are more easily handled, and that there is no more risk, when worked on a proper system, of cards being displaced or lost than there is of sheets getting out of order or of going astray. The initial cost, it is true, may be greater, but, over a series of years, the expense averages out about the same as for bound books.

Balancing of Ledgers

It is quite impossible to lay down any hard and fast rule for the balancing of ledgers. In some businesses the accounts are balanced monthly, in others quarterly. In some ledgers double money columns are used, because the business has foreign customers, and one column is required for currency amounts and the other column for sterling equivalents.

In other businesses double money columns are provided so that accounts can be ruled off as and when paid.

Again, some businesses wish to see the half-yearly or yearly *turnover* of each customer, and therefore balance their ledger accounts only at the end of such periods. There is certainly an advantage in ruling off an account whenever payment is made, as it can then be readily seen of what items the balance still remaining is composed.

In many cases the monthly balancing is done in ink when *statements* are rendered monthly; and likewise the quarterly balancing in ink when statements are rendered quarterly. In

other cases, balancing takes place in pencil when merely for the purpose of a Trial Balance; though even for this purpose auditors prefer the balancing to be done in ink, as it fixes the

figures shown in the Trial Balance, and greatly facilitates the work of checking.

The following three examples illustrate the different methods of balancing and ruling off—

EXAMPLE (1)

Dr.		JOHN BENTLEY				Cr.		
19..		£	s.	d.	19..	£	s.	d.
Jan. 9	To Goods	36	14	10	Feb. 8	By Cash	34	18 1
						„ Discount	1	16 9
		£36	14	10			£36	14 10
Feb. 10	To Goods	49	16	8	Mar. 11	By Cash on Account	30	—
Mar. 8	„ „	54	6	11	April 9	„ „ „ „	40	—
April 13	„ „	98	5	8	May 12	„ „ „ „	50	—
May 9	„ „	138	13	11	June 8	„ Cash	210	2 —
						„ Discount	11	1 2
		£341	3	2			£341	3 2
June 9	To Goods	47	15	10	July 8	By Cash on Account	20	—
July 8	„ „	54	17	3	Aug. 10	„ „ „ „	30	—
Aug. 15	„ „	86	6	9	Sept. 12	„ „ „ „	60	—
Sept. 9	„ „	135	10	7	Oct. 8	„ „ „ „	80	—
Oct. 10	„ „	45	15	4	Nov. 9	„ „ „ „	25	—
Nov. 7	„ „	67	8	6	Dec. 14	„ Cash	211	11 6
						„ Discount	11	2 9
		£437	14	3			£437	14 3
Dec. 16	To Goods	35	16	10				

The foregoing example shows clearly the different periods of cash settlement, but it does not show the turnover for the year.

EXAMPLE (2)

Dr		JOHN BENTLEY					Cr		
19..		£	s.	d.	19..		£	s.	d.
Jan. 9	To Goods	36	14	10	Feb. 8	By Cash	34	18	1
Feb. 10	" "	49	16	8		" Discount	1	16	9
Mar. 8	" "	54	6	11	Mar. 11	" Cash on Account	30	—	—
April 13	" "	98	5	8	April 9	" " " "	40	—	—
May 9	" "	138	13	11	May 12	" " " "	50	—	—
June 9	" "	47	15	10	June 8	" " " "	210	2	—
July 8	" "	54	17	3		" Discount	11	1	2
Aug. 15	" "	86	6	9	July 8	" Cash on Account	20	—	—
Sept. 9	" "	135	10	7	Aug 10	" " " "	30	—	—
Oct. 10	" "	45	15	4	Sept. 12	" " " "	60	—	—
Nov. 7	" "	67	8	6	Oct. 8	" " " "	80	—	—
Dec. 16	" "	35	16	10	Nov. 9	" " " "	25	—	—
					Dec. 14	" " " "	211	11	6
						" Discount	11	2	9
					31	" Balance c/d	35	16	10
		£851	9	1			£851	9	1
Jan. 1	To Balance b/d	35	16	10					

The second example shows quite clearly the annual turnover, but the various cash settlements are rather difficult to follow.

copied into the Cash Book, and afterwards re-copied into the Ledger.

In practice, however, there are many varia-

EXAMPLE (3)

Dr.				JOHN BENTLEY				Cr.						
19..		£	s.	d.	19..		£	s.	d.	19..		£	s.	d.
Jan. 9	To Goods	36	14	10	Feb. 8	By Cash	34	18	1					
						„ Discount	1	16	9			36	14	10
Feb. 10	„ „	49	16	8	Mar. 11	„ Cash on Account	30	—	—					
Mar. 8	„ „	54	6	11	April 9	„ „ „	40	—	—					
April 13	„ „	98	5	8	May 12	„ „ „	50	—	—					
May 9	„ „	138	13	11	June 8	„ Cash	210	2	—					
						„ Discount	11	1	2			341	3	2
June 9	„ „	47	15	10	July 8	„ Cash on Account	20	—	—					
July 8	„ „	54	17	3	Aug. 10	„ „ „	30	—	—					
Aug. 15	„ „	86	6	9	Sept. 12	„ „ „	60	—	—					
Sept. 9	„ „	135	10	7	Oct. 8	„ „ „	80	—	—					
Oct. 10	„ „	45	15	4	Nov. 9	„ „ „	25	—	—					
Nov. 7	„ „	67	8	6	Dec. 14	„ Cash	211	11	6					
						„ Discount	11	2	9			437	14	3
Dec 16	„ „	35	16	10										
					31	„ Balance c/d	35	16	10					
		£851	9	1								£851	9	1
Jan. 1	To Balance b/d	35	16	10										

The third method combines the advantages of the other two, and thus shows both turnover and the various details of the cash settlements.

Slip System of Book-keeping

The Slip System of book-keeping is really one of the earliest methods of "Book-keeping without Books." "Accounting" is certainly a more appropriate name, inasmuch as it consists in recording, on loose sheets of paper, such transactions as are usually entered in books of account called subsidiary books or books of original entry. In the widest meaning of the term it comprehends also the loose-leaf and card ledgers.

The object of the Slip System is to save time and labour, by obviating the necessity for such a lot of copying required under the bound-book system. Under the ordinary system of book-keeping, all transactions are first recorded in subsidiary books. These transactions are then copied into the Ledger; the copying process is also continued into other books, according as the business requires analytical details or not.

Under the slip system, a carbon copy of an invoice may serve both for a Day Book and a Ledger Account. The counterfoils of receipts and cheques may be posted direct to the Ledger Accounts concerned, instead of first being

tions as regards details. Banks have for many years adopted the "slip" system, the numerous customers' accounts being written up from original slips such as paying-in slips and cheques, though such slips are more frequently known as "dockets."

Advantages of the Slip System

1. It lessens the risk of error, as much copying into subsidiary books (a frequent source of error) is done away with.
2. It saves the time and labour required for copying transactions into subsidiary books.
3. It facilitates division of labour, as slips can be distributed among several clerks simultaneously.
4. Ready and convenient reference from the Ledger direct to the original docket or slip.

Slip Day Book

This book is generally of large size, and contains three or four printed and numbered invoice forms on a page. Each time an invoice is made out, carbon copies are also obtained, duplicate *and triplicate* if so required. The perforated carbon copies are detached and used for posting up the Ledger Accounts affected, the reference folio being the number of the posting slip.

To avoid frequent reference to the slip, if this is at all likely, the detail of the transaction itself is copied into the Ledger Account. The posting slips are filed in alphabetical order. The amount of an invoice is extended into money columns provided on the counterfoil, or entered on a summary sheet against its corresponding number.

Where dissection is necessary, a specially ruled dissection book is kept, into which the invoice amounts are entered. The totals of the counterfoils, summary sheet, or dissection book are posted periodically to the Sales Account.

A simple form of Slip Day Book is found in most retail shops. Carbon copy bills are made out for each customer, one copy being given to the customer, and the other copy handed in at the cash desk to the cashier. Each bill is numbered, and this number, together with the amount of the sale is recorded on a summary sheet at the back of the bill book, to facilitate finding the daily total of such sales. Dissection, where required, is often facilitated by the use of different coloured bill forms, a distinctive colour being allotted to each separate department. Dissection is thus reduced to a matter of sorting and totalling the different coloured slips.

The slip system, thus worked, provides a safeguard against a very common error, namely, the dispatch of goods without any previous record in the books of the department making the sale. Instead of invoices being made by hand, they can, of course, be typewritten, if so desired.

The ordinary bound Day Book is said to require too much time to compile, to lack facilities for dissection, and to be open to doubt whether the entries therein accurately correspond with those on the invoices sent to the customers.

Slip Cash Book

The General Cash Book is for many reasons best kept as a bound book. For subsidiary Cash Books, however, the slip system may prove, in a good number of cases, very effective. The Slip Cash Received Book has several printed and numbered carbon copy receipt forms on a page, the numbered counterfoils being provided with money columns. The carbon duplicates are detached and given to

the ledger clerks for posting to the customers' accounts, subsequently being filed in alphabetical order. The totals of the counterfoils are used to check the debit side of the General Cash Book; they also facilitate the preparation of Adjustment Accounts for self-balancing ledgers.

The use of carbon-copy receipts acts as a safeguard against money being received and acknowledged without a record being made in the books. It is not, however, an infallible safeguard against manipulation or embezzlement; unscrupulous persons will perpetrate fraud (or attempt to) with any system.

The Slip Cash Paid Book is constructed and operated on somewhat similar lines. Each page consists of three or four cheque forms with detachable duplicates, the counterfoils being provided with money columns. The duplicates are used for posting the creditors' accounts, and also the real and nominal accounts in the General or Impersonal Ledger.

The total of the counterfoils is used to check the credit side of the General Cash Book. In many cases, however, there is not the same necessity for this book as for the other; because payments, besides being far less numerous, are much more subject to official supervision.

Slip Ledger

The Slip Ledger consists of the original sale slips sorted into alphabetical order, and kept in separate files or drawers, each personal account, therefore, being composed of loose slips. When the accounts are settled, the slips are removed to another set of files or drawers.

This system is most suitable for businesses where the customers are numerically very large but the transactions with each customer very few; in other words, where the customers are for the most part chance and not regular ones. It is also serviceable for retail businesses which are nominally cash businesses, but where it is necessary at times to give customers several days' credit.

The advantage of this method is that it obviates all intermediate entries, with its consequent loss of time and risk of error in copying into subsidiary books and then afterwards into the Ledger. In this case the original slip is itself the Ledger entry.

CHAPTER XVII

THE DETECTION AND LOCATION OF ERROR

THE question of error is a very important one in the commercial world. Mistakes are costly whether in the direct form of actual money or in the indirect form of time lost, and business men are willing to adopt any method which will eliminate even the possibility of error. There are three chief kinds of errors likely to occur in the books of a business house, and each in its own way is perilous to a business.

The errors are—

(a) Those which must be revealed by a sound method of self-balancing Ledgers.

(b) Those which once committed and passed, may never come to light.

(c) Wilful errors made for improper purposes.

The first of these can be a wrongful addition or a mistake made in posting an item from one book to another. The check upon them is that the books will not balance properly.

Two errors of the same amount may balance each other, but nearly always if this occurs in books where the mistake cannot be detected by a Trial Balance there will be other checks upon the figures.

For example: from the same page of the Day Book, Mr. Rodney of Swindon, £17 10s. may be posted to his Ledger Account as £27 10s., while Mr. Hackbridge of Totnes is only charged £23 4s. instead of £33 4s.

If such items were wrongly posted and checking failed to bring the fact to light, the monthly Trial Balance would also fail.

Outside Checks on Errors

But another check here would be the customers' objections. At least one of the two could be relied upon to point out that there was a difference between the invoice and the statement.

None the less a firm does not like to have book-keeping errors discovered and pointed out by the customer, and it is fortunately very rare that two mistakes balance each other in such a way.

Usually two mistakes that balance each other affect two different groups of books, and the chance of being simply discovered is increased.

The second class of mistakes is often of a

trivial nature, but these are none the less awkward, and may be costly. Careless computation and extension of invoices are among them, and though here also there is a chance of the customer correcting them, many buyers are exceeding lax in this part of business, and accept invoices without analysis.

A merchant once declared that one of his clerks had cost him a small fortune through a weakness in the "Nine Times Table."

The statement was made jestingly, but the basis of the criticism lay in the fact that the clerk usually reckoned nine eights as fifty-six, and had some trouble to break himself of the habit.

His was just such a case as Adding Machine sellers love to get hold of.

A variation of this mistake can be very expensive when it is made in a costing department.

Some time ago a firm sold a commodity through a whole year at a substantial loss, entirely through a clerical blunder in taking the price per hundredweight for an important ingredient, instead of the cost per ton.

An error of rather less serious nature, yet quite costly in its way, was the opinion of a costing clerk, that there are 16 ounces to the pound in Apothecary's weight instead of twelve.

The remedy for the last fault requires an Act of Parliament to revise our antiquated system of weights and measures.

Inefficient Methods a Temptation

The third kind of error if it can be called such, is fortunately more rare in these days of scientific auditing than was once the case.

In the circumstances of a suddenly planned search audit, where an old business has become a company, many a senior or junior cashier has been happy in the fact that his punctiliously efficient care has been discovered and commended.

On the other hand, there have been cases, where such a search-light flung through the books of three or four years, has devastated the man who had his own private and particular ways of making things balance.*

He is a wise man who can manipulate a

shortage or induce a qualified accountant not to notice it, and there is very little opportunity now in the modern office to plead "temptation put in his way."

Yet in spite of all this, every responsible person who handles accounts or actual money should reckon with the chance of dishonesty.

The clerk, who, sent to the bank to draw £50 in notes and cash, and finding the cashier absent, thinks he has discharged his duty by leaving the money on his desk, in an office which other persons enter, is acting fairly to no one.

• There are three chief methods by which business men endeavour to prevent errors occurring, or where they do occur, to locate the error and correct it. These are: a system of internal check, the check figure system, and self-balancing Ledgers.

System of Internal Check

Internal check is part of the scheme of organization of accounts, designed, in businesses of some magnitude, to ensure accuracy of record, easy detection and rectification of errors, and the prevention of fraud. The following are the principal rules usually laid down in order to secure the desired end—

1. All cash received to be paid into Bank intact daily, and all payments, except petty cash payments, to be made by cheque. The Bank Account in the Cash Book to be regularly checked with the Bank Pass Book, and a Reconciliation Statement to be entered in the Cash Book at least at the end of each month. The receipt and payment of cash to be always in different hands, wherever possible, or receipts and payments made by one official to be regularly reviewed by another responsible official.
2. Printed and numbered carbon copy receipts to be given for all cash received. Other receipts not to be recognized.
3. The petty cash to be kept on the Imprest system in a Columnar Petty Cash Book, to be used also for direct posting to the impersonal accounts affected in the General Ledger. Receipts or petty cash vouchers to be obtained for all payments or disbursements.
4. The cashier not to be allowed to post cash to Ledger Accounts concerned.
5. Payment of creditors' accounts to be made only after certification by the chief clerk or accountant.
6. All extensions and additions in the Day Book to be checked by a second clerk.
7. Allowances for returns, claims, overcharges,

and other items, to be certified by the chief clerk or accountant before being entered in the Credit Note Book.

8. All purchases to be made by means of a written order from a printed and numbered counterfoil or carbon copy Order Book. Order Number to be quoted on all invoices inwards. Verbal orders not to be recognized. All Purchase Invoices to be stamped with a rubber stamp, thus—

GOODS CORRECT....	...	.	.	.	.	.	.
PRICES CORRECT .....	.	.	.	.	.	.	.
EXTENSIONS CORRECT . .	.	.	.	.	.	.	.
PASSED FOR PAYMENT ...	.	.	.	.	.	.	.

and clerks responsible for checking the invoices to be instructed to sign in the blank spaces provided.

9. A Goods Received Book or a Goods Inward Book to be kept, and entries duly made as and when goods are received, in order to act as a check on the Stores Department or stock room, and for reference in cases of dispute.

10. The Ledgers to be subdivided alphabetically, geographically, or departmentally with a view to facilitating rapid posting and ensuring their being always up to date. Each Ledger to be made self-balancing, and the Ledgers to be checked by Control or Key Accounts in the General or Impersonal Ledger. Clerks in charge of Ledgers to be frequently changed and given charge of entirely different Ledgers.

11. No clerk who makes original entries in the subsidiary books to be allowed to post them to their respective Ledger Accounts.

12. All Transfers between Ledger Accounts to be always made by means of Journal entry. This will avoid one-sided entries throwing out the agreement of the Trial Balance, and causing much loss of time in tracing such entries. It will also be a very necessary adherence to one of the cardinal principles of good book-keeping—no direct entries in the Ledger.

13. A list of Overdue Debtors' Accounts to be specially furnished to the manager or secretary, each month, by the chief clerk or accountant.

14. A Trial Balance of Ledger postings to be taken out at least once a month. Such balances to be recorded in a Columnar Trial Balance Book as a permanent record.

15. Where Loose-Leaf Ledgers are employed, the sheets should have a distinctive print and ruling, to facilitate immediate detection in cases of substitution. The stock of loose-leaf sheets should be in the hands of a responsible official, who should obtain signatures for all fresh sheets issued, and enter them in his register. A responsible official should also be in charge of the key of the Ledger binders, and should himself unlock and relock the binders whenever necessary to insert new leaves or remove old ones. No sheet should be removed without the previous sanction of the chief clerk or accountant. Where the pounds amount runs into several figures, the pounds column should be ruled with faint lines to separate the tens, hundreds, thousands, etc., as this not only makes it easier for posting, but also greatly facilitates correct addition.

16. In the absence of other arrangements, Packing Slips should be made out for all orders executed, and sent daily to the office for preparing the invoices. This will prevent goods being sent out without an invoice or an entry in the subsidiary books.

17. Where bills of exchange are very numerous, a Bills Receivable and a Bills Payable Diary should be kept, so that no bill to be received or to be paid will get overlooked.

18. The clerk who makes up the Wages sheets should not be the clerk to pay the wages. Men's time and labour should be certified by the foreman on properly printed time sheets, or by the records made by a time-recording clock. All extensions and additions on the Pay Sheets to be checked by a second clerk. The pay sheets should be ruled with columns to show deductions for Health Insurance and Unemployment Insurance, and also advances (if any). Wages to be paid in the presence of a responsible official, and receipts to be obtained unless numerically impossible. Each workman to receive his own wages; no deputy to be allowed, unless he has the written authority of the manager or secretary. Weekly totals to be regularly compared, and any fluctuations satisfactorily accounted for. Salaries should be paid according to an officially authorized list, and receipts regularly obtained. Where salaries are paid by means of individual cheques, the endorsement on the cheque is sufficient receipt.

19. Stock Books or Ledgers or Registers, or Stock Cards or Sheets, to be kept where necessary. All receipts and issues of stock or stores to be regularly entered. Control or Key Accounts

for Stocks and Stores to be kept in the General Ledger. Stock to be regularly checked, and to be kept in such a way as to facilitate the half-yearly or yearly stocktaking for balancing purposes.

20. In a manufacturing business, a proper system of Costing should be adopted. Accurate records should be kept of all stores received and issued. Proper analysis of wages should be made, both of time-workers and of piece-workers. Finished goods and goods in process of manufacture should be separately accounted for, and checked at regular intervals. Control or Adjustment Accounts should be kept for all cost processes. Overhead costs should be apportioned on some recognized equitable basis. Fluctuations in manufacturing costs should be very carefully gone into, and not passed until satisfactorily accounted for.

Check Figure System

This is a system of check, based on the theory of remainders, which enables errors in addition or posting to be readily located. A somewhat similar system of proof is used in arithmetic to verify multiplications, by casting out the nines or the elevens.

Several systems are in use, and almost any odd number from 7 to 19 may be employed. Nine and eleven, owing to their close relationship to ten, have, however, certain limitations; and therefore 13 and 19 are the numbers more generally used, though they are applied in a slightly different manner. To facilitate quick and accurate division, a copy of the multiplication table for the numbers 13 and 19 is usually kept at one's side.

Rule for Thirteen (13)

The rule for finding the check figure of £ s. d. amounts by means of the number 13 is as follows—

Divide the pounds by 13, and call the remainder shillings. Add half of this remainder to the shillings and pence of the amount under check. Subtract the pence from the shillings, and the difference will be the required check figure. If the shillings are less than the pence, add 13 to the shillings before subtracting.

EXAMPLE 1. Find the check figure of £638 12s. 5d.

$638 \div 13$ leaves 1 remainder.

Half of 1s. = 6d.

6d. + 12s. 5d. = 12s. 11d.

$12 - 11 = 1$ = check figure.

EXAMPLE 2. Find the check figure of £485 5s. 10d.

$485 \div 13$ leaves 4 remainder.

Half of 4s. = 2s.

2s. + 5s. 10d. = 7s. 10d.

$(7 + 13) - 10 = 20 - 10 = 10 =$ check figure.

There is an alternate method of dealing with the remainder from the pounds, which is sometimes adopted in order to simplify the amounts to be added. When the remainder happens to be an *odd* number, 13 is added to it. The total is halved, and the work proceeds as before.

EXAMPLE 3. Find the check figure of £752 8s. 9d.

$752 \div 13$ leaves 11 remainder.

$11 + 13 = 24$.

$24 \div 2 = 12$.

12s. + 8s. 9d. = 20s. 9d.

$20 - 9 = 11 =$ check figure.

Otherwise, $752 \div 13$ leaves 11 remainder.

Half of 11s. = 5s. 6d.

5s. 6d. + 8s. 9d. = 14s. 3d.

$14 - 3 = 11 =$ check figure.

Rule for Nineteen (19)

The rule for finding the check figure of £ s. d. amounts by means of the number 19 is as follows—

Divide the pounds by 19, and call the remainder shillings. Add this number of shillings to the shillings and pence of the amount under check. Subtract the pence from the shillings. If the shillings are less than the pence, add 19 to the shillings before subtracting. The difference after subtraction (casting out, if necessary, any multiple of 19) will be the required check figure.

EXAMPLE 1. Find the check figure of £478 2s. 7d.

$478 \div 19$ leaves 3 remainder.

3s. + 2s. 7d. = 5s. 7d.

$(5 + 19) - 7 = 24 - 7 = 17 =$ check figure.

There is an alternative method of procedure, which is adopted when the pounds do not run into more than *two* figures. In such cases, the pounds are added to the shillings before being divided.

EXAMPLE 2. Find the check figure of £85 17s. 11d.

$85 + 17 = 102$.

$102 \div 19$ leaves 7 remainder.

$(7 + 19) - 11 = 26 - 11 = 15 =$ check figure.

Otherwise, $85 \div 19$ leaves 9 remainder.

9s. + 17s. 11d. = 26s. 11d.

$26 - 11 = 15 =$ check figure.

Check Figure of Fractions (Base 13)

The check figures of fractions (base 13) are ascertained as follows—

Check figure of 1 = 1 = check figure of 14 = check figure of 27.

Therefore check figure of $\frac{1}{3} = 9$;

of $\frac{2}{3} = 18 = 5$;

of $1\frac{1}{3} = 1 + 9 = 10$;

of $1\frac{2}{3} = 1 + 5 = 6$;

of $2\frac{1}{3} = 2 + 9 = 11$;

of $2\frac{2}{3} = 2 + 5 = 7$; and so on.

Check figure of 1d. = 1 = check figure of 14.

Therefore check figure of $\frac{1}{2}$ d. = 7;

of $\frac{1}{4}$ d. = $3\frac{1}{2} = 3 + 7 = 10$;

of $\frac{3}{4}$ d. = 30 = 4. Thus the check figure of £8 5s. $7\frac{1}{2}$ d.

4s. (half of 8) + 5s. 7d. = 9s. 7d.

$9 - 7 = 2$.

$(2 + 13) - 7 = 15 - 7 = 8$.

And check figure of £16 4s. $8\frac{3}{4}$ d.

$16 \div 13 = 3$ remainder.

Half of 3s. = 1s. 6d.

1s. 6d. + 4s. 8d. = 6s. 2d.

$6 - 2 = 4$.

$4 - 4$ (check figure of $\frac{3}{4}$ d.) = 0 = check figure.

Check Figure of Fractions (Base 19)

The check figures of fractions (base 19) are ascertained as follows—

Check figure of 1 = 1 = check figure of 20 = check figure of 39. Therefore the check figure of $\frac{1}{3} = 13$;

of $\frac{2}{3} = 26 = 7$;

of $1\frac{1}{3} = 1 + 13 = 14$;

of $1\frac{2}{3} = 1 + 7 = 8$;

of $2\frac{1}{3} = 2 + 13 = 15$;

of $2\frac{2}{3} = 2 + 7 = 9$; and so on.

Check figure of 1d. = 1 = check figure of 20.

Therefore check figure of $\frac{1}{4}$ d. = 5;

of $\frac{1}{2}$ d. = 10;

of $\frac{3}{4}$ d. = 15.

Thus the check figure of £7 5s. $7\frac{1}{2}$ d.

$12 - 7 = 5$.

$(5 + 19) - 10 = 24 - 10 = 14 =$ check figure.

And of £16 4s. $9\frac{3}{4}$ d.

$20 - 9 = 11$.

$(11 + 19) - 15 = 30 - 15 = 15 =$ check figure.

Application of System to Ledger Postings

When posting from any of the subsidiary books to the Ledger, the book-keeper ascertains the check figure of the amount he has just posted in the Ledger, and inserts this check figure in a specially provided column in the subsidiary book itself.

The subsidiary book is totalled at the bottom of each page, and the column containing the check figures is also totalled.

If the posting and addition have been correctly performed, the check figures of the totals of these two columns will agree. If they are not in agreement, however, that fact is *prima facie* evidence of the existence of an error.

Example. Suppose the following to represent a page of the Day Book, and the figures at the sides of the amounts to be the proper check figures, according to the 13 modulus and the 19 modulus respectively, inserted when the amounts were posted to Ledger—

(13)	£	s.	d.	(19)
3	87	15	10	16
4	126	14	8	18
4	178	15	9	13
9	95	13	6	7
11	274	12	8	12
0	69	15	4	4
7	186	3	11	7
9	89	18	8	4
5	217	4	10	2
9	98	17	5	15
0	135	10	6	6
11	147	12	3	4
<u>7</u>	<u>1708</u>	<u>15</u>	<u>4</u>	<u>13</u>
$(7) \quad 7 \div 3 = 2\frac{1}{3} = 15$				
<u>9</u>				

To agree the totals of columns (base 19), multiply the number of shillings carried forward from the pence column by 13, or by $\frac{1}{3}$, i.e. divide by 3 (13 being the check figure of the fraction $\frac{1}{3}$), and add the result to the check figure column.

The check figure of £1,708 15s. 4d. by the 13 system is (5 remainder; half of 5s. = 2s. 6d. + 15s. 4d. = 17s. 10d. = 17 - 10) 7; and the check figure by the 19 system (17 remainder; 32 - 4 = 28 = 9) is 9. These check figures, it will be seen, agree with those in the respective check-figure columns.

Recent Investigations of Check Figure Systems

The result of recent investigations has seriously weakened faith in the efficacy of check figure systems. It has been found that a very large number of errors, caused by transposition of pounds, shillings, and pence, may pass undetected, whatever modulus or base-number is used. Many of the transpositions, however, seem very far-fetched, and hardly liable to be made by a competent book-keeper.

On the other hand, others are quite likely to occur.

Thus, if an amount of 13s. were posted as £13, the check figure (base 13) would still be the same; and yet there would be an actual error in the books of £12 7s. not detected by the system. Further, if a very careless book-keeper posted £18 5s. as £5 18s., the check figure (base 13) would be the same in each case; and yet there would be an actual error of £12 7s. undetected.

Again, if an amount of 19s. was posted as £19, the check figure (base 19) would still be the same; and yet there would be an actual error in the books of £18 1s. passing undetected.

The Trial Balance would, of course, reveal the existence of such errors, but to have ultimately to depend on the Trial Balance is certainly not a recommendation of check figure systems.

A cardinal weakness, too, is the fact that varying amounts have the same check figure. Thus, the check figures of £1, 1s., and 1d. are all the same; yet £1 is 240 pence, 1s. is 12 pence, while 1d. is but a single penny. This is scientifically faulty.

If, now, 1d. is posted as 1s., there is an error of 11d.; if 1s. is posted as £1, there is an error of 19s.; while if 1d. is posted as £1, there is an error of 19s. 11d. It must be admitted that such a system is fundamentally unsound—three quite correct check figures, and yet three possible errors of varying amount!

It is true that certain devices have been suggested with a view to lessening the number of possible errors not capable of detection; but the effect of recent revelations has been to discredit the reliability of check figure systems in general.

Trial Balance as Proof of Accuracy

With books kept on double-entry principles, the Trial Balance is the recognized method of testing whether the debit entries in the Ledger are equal to the credit entries when both are

totalled. If the debit and credit totals of the Trial Balance agree, this fact is taken as evidence of the general correctness of the work. The Trial Balance, however, is really only a proof of *arithmetical* accuracy. There are certain classes of error which will not be revealed by a Trial Balance, whether prepared by means of totals or merely balances. They are as follows—

1. *Omission of Entries.* If both the debit and the credit entries of a transaction have not been posted, the Trial Balance will not disclose the fact, since the two sides will still be in agreement. This would be most likely to occur by the non-posting of a Journal entry of one

and, therefore, the error will not be revealed by it.

4. *Errors of Principle.* If an expense item has been posted to an Asset Account instead of to an Expense Account, or vice versa, e.g. Repairs to Plant, posted to Plant Account instead of to Repairs Account, the agreement of the Trial Balance is not thereby affected, and consequently the error is not disclosed by it.

Compensating Errors

The following illustrations will help to make the matter of compensating errors a little clearer—

TRIAL BALANCE (CORRECT)										Dr.			Cr.		
										£	s.	d.	£	s.	d.
F. Smith	.	.	.	.	.	.	.	.	.	27	18	9			
G. Stevens	.	.	.	.	.	.	.	.	.				36	19	8
O. Teale	.	.	.	.	.	.	.	.	.	45	11	6			
R. Frimp	.	.	.	.	.	.	.	.	.	39	2	8			
Sundry Debit Accounts (Total)	.	.	.	.	.	.	.	.	.	2467	16	8			
Sundry Credit Accounts (Total)	.	.	.	.	.	.	.	.	.				2543	9	11
										£2580	9	7	£2580	9	7

TRIAL BALANCE (INCORRECT)										Dr.			Cr.		
										£	s.	d.	£	s.	d.
F. Smith	.	.	.	.	.	.	.	.	.	27	8	9			
G. Stevens	.	.	.	.	.	.	.	.	.				36	9	8
O. Teale	.	.	.	.	.	.	.	.	.	45	1	6			
R. Frimp	.	.	.	.	.	.	.	.	.	39	12	8			
Sundry Debit Accounts (Total)	.	.	.	.	.	.	.	.	.	2468	6	8			
Sundry Credit Accounts (Total)	.	.	.	.	.	.	.	.	.				2543	19	11
										£2580	9	7	£2580	9	7

single debit and credit, e.g. Bad Debts, Dr. £25, to C. Serle, Cr. £25.

2. *Misposting of Accounts.* If £75 has been posted to the debit of A. Brown instead of H. Brown, or if £36 has been credited to K. Grant instead of Grant & Co., such a mistake will not prevent the agreement of the Trial Balance, and will, therefore, not be disclosed by it.

3. *Compensating Errors.* If one account has been under-added by £20 on the debit side, and another account has been under-added on the credit side by £20; or if one account has been over-debited by £10, and another account has been over-credited by £10, the Trial Balance will still show equal debit and credit totals,

Now, there are in the second Trial Balance no fewer than *six* mistakes; in fact, it is *all* wrong. Yet nothing is disclosed by the Trial Balance; for, as the reader can see, the totals not only agree with each other, but are exactly the same as those of the correct Trial Balance.

What is the cause of this? It is due to compensating errors, that is, errors that counter-balance or offset one another.

In the present example, the errors are rather obvious, because they have been placed close together.

In the actual business Trial Balance, however, there might not be this proximity. The mistakes might be separated from one another by

some distance, or even by some pages ; for the business Trial Balance often consists of a number of foolscap-size pages of balances, especially where there are hundreds and thousands of accounts.

The first two mistakes (Smith and Stevens) are typical of errors that often arise when taking out numerous balances quickly. The tens in the shillings are inadvertently omitted. These mistakes also serve as examples of the *under-adding* of accounts on *opposite* Ledger sides ; in this case, each by ten shillings.

The second pair of mistakes (Teale and Frimp) are typical of errors that arise through the *under-adding* and the *over-adding* of amounts on the *same* Ledger sides ; in this case, each by ten shillings.

The third pair of compensating errors (Total Debit Accounts and Total Credit Accounts) are typical of mistakes that are caused through the *over-adding* of amounts on *opposite* Ledger sides ; in this case also, each by ten shillings.

Non-Agreement of Trial Balances

The following are some of the commonest errors which prevent the agreement of Trial Balance totals at the first or second attempt—

1. Omission of the Cash and Bank balances as per the Cash Book. These, being outside the Ledger, are frequently forgotten.

2. Cash and Bank balances as per Cash Book entered in the *credit* column of the Trial Balance instead of in the *debit* column—an error caused by not bringing down at once the balances from the credit side of the Cash Book to its debit side.

3. The Purchases and Sales Books totals not posted at the end of the month to the Purchases and Sales Accounts respectively.

4. The Discount totals in the Cash Book not posted at the end of the month to their respective Ledger Accounts ; or frequently misposted, the sides being reversed in error, owing to the general rule for posting the Cash Book being to reverse the sides.

5. Balances taken out correctly from the Ledger, but entered in the wrong column of the Trial Balance.

6. Balances missed in extracting lists of debtors and creditors.

7. Errors in posting or balancing the Ledger Accounts.

8. One-sided entries in the Ledger, e.g. Allowances written in on the credit side, without first appearing in some subsidiary book ;

amounts written off to Bad Debts, without actually being entered in the Bad Debts Account.

9. Transposition of figures when extracting balances, e.g. 18s. 11d. in the Ledger, but entered in the Trial Balance as £18 11s.

10. Figures not kept in their proper places when entering amounts in the Trial Balance—units under tens, tens under hundreds, and so on, thus greatly hindering, if not preventing, the correct addition of the columns.

Self-Balancing Ledgers

A Self-Balancing Ledger is one whose balances when extracted form a complete Trial Balance.

The object of making Ledgers self-balancing is to be able to localize errors, i.e. to be able to say in which Ledger the mistake lies, and thus prevent waste of time and labour in checking books that may be quite correct if we did but know it. Books kept on double-entry principles are proved periodically by means of a Trial Balance.

Now, if the debit total of the Trial Balance does not agree with the credit total, we know that there is a mistake *somewhere* in the books. Checking and rechecking of the books must go on until the mistake is found and rectified. All the Sales Ledger postings might be called over, then the Bought Ledger postings, and finally the mistake might be found in the General or Impersonal Ledger.

With self-balancing Ledgers, however, there is a separate Trial Balance of each Bought Ledger and each Sales Ledger, so that if the final Trial Balance does not agree, the mistake must then lie in the General or Impersonal Ledger, and rechecking of this one Ledger is all that is necessary.

Sectional Balancing

Where the Bought Ledgers and Sales Ledgers are subdivided alphabetically, departmentally, or geographically, the term “sectional balancing” is frequently used to denote the separate balancing of each section of the Ledgers.

Adjustment Accounts

In order to make a Bought or Sales Ledger such that a Trial Balance can be abstracted, it will be necessary to write in at the back of them an extra account, called an Adjustment Account, which serves the double purpose of proving the Ledger and of making it self-balancing ; for where there are several Ledgers in use, it is obvious that they will not balance naturally,

since Bought Ledgers will contain only *credit* balances, and Sales Ledgers will contain only *debit* balances.

The Adjustment Account is merely a record of the transactions already posted in the particular Ledger, but in a summarized form instead

be equal to the sum of all its parts. Let us suppose, by way of example, that we have the under-mentioned debtors in our Ledger, and that sales of goods, payments, returns, etc., take place as detailed below; then, in each account, the balance would be as stated at the side—

Debtors	Goods Sold	Goods Returned	Cash Received	Discount Allowed	Bills Received	Balance Owning
Smith	£ 275	£ 15	£ 133	£ 7	£	£ 120
Lange	182	10	95	5		72
Choke	324		114	6	100	104
Driver	364	24	100		120	120
Earle	256		190	10		56
Fuller	189	19	100			70
Grant	365		150		100	115
Hiller	435	25	209	11		190
Isaacs	235	35	100			100
Jones	327		95	5	120	107
King	223		63			160
Looker	453	33	228	12		180
	<u>£3628</u>	<u>£161</u>	<u>£1577</u>	<u>£56</u>	<u>£440</u>	<u>£1394</u>

of in detail, and having the items transposed, namely, the debits on the credit side, and the credits on the debit side.

The balance of the Adjustment Account must always be equal to the sum of the separate

The above transactions would, of course, appear in twelve separate Ledger Accounts, one for each person named. Now let us post the same transactions into *one* Account, *in total*, and balance it, thus—

Dr.		TOTAL DEBTORS' ACCOUNT						Cr.	
19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Goods	3628	—	—	Dec. 31	By Returns	161	—	—
						„ Cash	1577	—	—
						„ Discount	56	—	—
						„ Bills Receivable	440	—	—
						„ Balance c/d	1394	—	—
		<u>£3628</u>	—	—			<u>£3628</u>	—	—
Jan. 1	To Balance b/d	1394	—	—					

balances in the Ledger itself, thus proving the Ledger; it must also be on the opposite side, so that when a Trial Balance is extracted, the total of the debits will equal the total of the credits, thus making the Ledger self-balancing.

Principle of Proof of Adjustment Accounts

The mathematical principle underlying the Adjustment Account is proof by means of totals, based on the axiom that *the whole must*

The balance of this Total Account is equal to the sum of the separate balances, thus proving the correctness of the postings, additions, and subtractions in the Ledger Accounts.

Adjustment Accounts for Bought Ledgers

Adjustment Accounts are constructed for the Bought Ledger, or for each of its subdivisions, if divided into sections. All the items that have been posted in detail into the Bought Ledger

must be posted *in total* to the Adjustment Account, and on the same side, debit or credit as the case may be. The following is a *pro forma* specimen—

The balance shown would, of course, be equal to the sum of the separate Bought Ledger balances, thus proving the arithmetical accuracy of the Bought Ledger itself.

(IN GENERAL LEDGER)																			
Dr.						BOUGHT LEDGER ADJUSTMENT ACCOUNT						Cr.							
19..		£				s.		d.		19..		£				s.		d.	
Mar. 31	To Cash				675	15	9			Mar. 1	By Balance				2986	14	8		
	„ Discount				24	17	11			31	„ Goods				956	10	7		
	„ Bills Payable				416	18	6												
	„ Returns				58	9	3												
	„ Balance c/d				2767	3	10												
					£3943	5	3								£3943	5	3		
										April 1	By Balance b/d				2767	3	10		

The foregoing Account would appear in the General or Impersonal Ledger. There would be a corresponding Account in the Bought Ledger itself, but the items would appear on the opposite sides, i.e. the debits and credits would be transposed. This makes a double-entry of these two Adjustment Accounts, as can be seen from the following—

If any transfers of contra accounts had been made between the Bought Ledger and the Sales Ledger customers, such transfers would have to be entered in the Adjustment Accounts as well. In such cases a specially ruled Columnar Journal provides the necessary details and totals. In some cases, too, there might be charges for Interest to be dealt with similarly.

(IN BOUGHT LEDGER)												
Dr.		GENERAL LEDGER ADJUSTMENT ACCOUNT								Cr.		
19..				£	s.	d.	19..			£	s.	d.
Mar. 1	To Balance			2986	14	8	Mar. 31	By Cash		675	15	9
31	„ Goods			956	10	7		„ Discount		24	17	11
								„ Bills Payable		416	18	6
								„ Returns		58	9	3
								„ Balance c/d		2767	3	10
				£3943	5	3				£3943	5	3
April 1	To Balance b/d			2767	3	10						

(IN GENERAL LEDGER)												
Dr.		SALES LEDGER ADJUSTMENT ACCOUNT								Cr		
19..			£	s.	d.	19..			£	s.	d.	
Mar. 1	To Balance		6856	18	10	Mar. 31	By Cash and Discount		3026	16	11	
31	„ Goods		2986	6	4		„ Bills Receivable		657	10	6	
	„ Cash (Dishonoured Bills and Charges)		137	14	8		„ Returns		98	18	6	
	„ Transfers		45	15	9		„ Bad Debts		124	16	10	
							„ Transfers		32	6	8	
							„ Balance c/d		6086	6	2	
			£	10,026	15	7			£	10,026	15	7
April 1	To Balance b/d		6086	6	2							

Adjustment Accounts for Sales Ledgers

Adjustment Accounts are also constructed for the Sales Ledger, or for each of its subdivisions, if divided into sections. All the items that have been posted in detail into the Sales Ledger must be posted *in total* to the Adjustment Account, and on the same side, debit or credit as the case may be. A *pro forma* specimen is shown at the bottom of the previous page.

The foregoing Account would appear in the General or Impersonal Ledger. There would be a corresponding Account in the Sales Ledger itself, but the items would appear on the opposite sides, i.e. the debits and credits would be transposed. This makes a double-entry of these two Adjustment Accounts, as can be seen from the following—

the total of the Sales Ledger balances, and the total of the Bought Ledger balances.

It is quite a modern practice to copy the Total Account into the back of the Ledger concerned, and by transposing the debits and credits to render the Ledger self-balancing.

This new method provides "contra" Adjustment Accounts, those in the Bought and Sales Ledgers being the exact counterparts of those in the General Ledger. Such accounts can then be kept on double-entry principles, every debit having a corresponding credit, and vice versa.

Many accountants, however, strongly object to the "contra" Adjustment Account in the Bought Ledger and Sales Ledger respectively, and maintain that it merely puts the ledger clerk in possession of total checking figures, and

(IN SALES LEDGER)											
Dr.						GENERAL LEDGER ADJUSTMENT ACCOUNT					
						Cr.					
19..		£	s.	d.		19..		£	s.	d.	
Mar. 31	To Cash and Discount . . .	3026	16	11		Mar. 1	By Balance	6856	18	10	
	„ Bills Receivable . . .	657	10	6		31	„ Goods	2986	6	4	
	„ Returns	98	18	6			„ Cash (Dishonoured Bills and				
	„ Bad Debts	124	16	10			Charges)	137	14	8	
	„ Transfers	32	6	8			„ Transfers	45	15	9	
	„ Balance c/d	6086	6	2							
		£	10,026	15	7			£	10,026	15	7
						April 1	By Balance b/d	6086	6	2	

The above balance would, of course, be equal to the sum of the separate Sales Ledger balances, thus proving the arithmetical accuracy of the Sales Ledger itself. If there have been any transfers made through the Journal, or any items of interest on renewed bills, or any carriage paid out on Returns, as per Petty Cash Book, such items must also appear in the Adjustment Accounts.

Total Checking Accounts, Contra Adjustment Accounts

It will be seen from the foregoing illustrations that Self-Balancing Ledgers are merely an extension or adaptation of the former system of Total Checking Accounts.

A Total Debtors' Account, and a Total Creditors' Account (now called Sales Ledger Adjustment Account and Bought Ledger Adjustment Account respectively) were kept in the General or Impersonal Ledger, and were used by the chief clerk or accountant to verify

renders possible the manipulation of balances, thus destroying the effectiveness of the check.

Control or Key Accounts

This term is simply another name for the better known term "Adjustment Accounts." The accounts are constructed exactly in the same way. There is, however, no "contra" Adjustment Account. The Control or Key Account for the Bought Ledger, and the Control or Key Account for the Sales Ledger, are simply those usually constructed in the General or Impersonal Ledger.

A slight variation exists as to method of keeping; it is suggested that they should always be kept in the *Private Ledger*, so that clerks who have access to all the other Ledgers, will thus be prevented from knowing the figures of the Control or Key Accounts. This seems, however, a counsel of perfection. Any book-keeper who has obtained a certificate for Intermediate Book-keeping knows all about

SALES BOOK

Date	Particulars	Led Fol	Total	LEDGERS									Woollens			Cottons			Silks		
				A-K			L-R			S-Z											
19 .			£ s. d.	£	s	d.	£	s	d.	£	s	d.	£	s	d.	£	s	d.	£	s	d.

PURCHASES BOOK

Date	Particulars	Led Fol	Total	LEDGERS									DEPARTMENTS								
				A			B			C			No. 1			No. 2			No. 3		
19..			£ s. d.	£	s	d.	£	s	d.	£	s	d.	£	s	d.	£	s	d.	£	s	d.

CASH BOOK

Dr.

RECEIPTS

Date	Particulars	Led. Fol.	Discount	Details	Bank	SALES LEDGERS								
						A-K Or Silks			L-R Or Cottons			S-Z Or Woollens		
19..			£ s. d.	£ s. d.	£ s. d.	£	s	d.	£	s	d.	£	s	d.

PAYMENTS

Cr.

Date	Particulars	Led. Fol.	Discount	Details	Bank	BOUGHT LEDGERS								
						A Or Dept. 1			B Or Dept. 2			C Or Dept. 3		
19..			£ s. d.	£ s. d.	£ s. d.	£	s	d.	£	s	d.	£	s	d.

Adjustment Accounts, and could quite easily obtain total checking figures, since he himself is using the subsidiary books for posting the Ledger or Ledgers assigned to him.

The old-time term of "Total Checking Account" seems to be by far the most satisfactory of any, since it explains both the nature of the Account and the principle of check.

The term "Adjustment Account" is certainly ambiguous, being also used to denote changes or alterations in accounts, as when we construct Partnership Adjustment Accounts, Capital Adjustment Accounts, Profit and Loss Adjustment Accounts. But there are "fashions" or "styles" in book-keeping as in other things, and it is becoming quite the fashion now to speak of Adjustment Accounts for self-balancing ledgers as "Control Accounts."

Special Rulings of Subsidiary Books

In order to be able to construct an Adjustment Account for any Ledger, we must be able to get at the totals of the various items that have been posted in it. When, therefore, there are several Bought Ledgers and Sales Ledgers in use, extra columns will be required in the Cash Book, Purchases Book, Sales Book, Bill Books, Returns Books, and others, for the purpose of analysing the items contained therein under the respective Ledgers to which they will be posted.

Such columns will be supplementary to any departmental columns already in use. If the number of Ledgers is very large, separate subsidiary books may be required for each Ledger.

The examples of the special rulings which may be necessary are given on the previous page.

Worked Example

From the following particulars write up the Journal, Purchases Book, Sales Book, Returns Books, Bill Books, and Cash Book, and post to Ledger Accounts. Construct the necessary Adjustment Accounts, and show, by means of Trial Balances, that the Ledgers are self-balancing—

19..		£	s	d.
Mar. 1	F. Beachley commenced the month with the following Assets and Liabilities—			
	Plant and Machinery	2854	13	9
	Furniture and Fixtures	472	18	6
	Stock-in-trade	1389	15	10
	Bills Receivable (No 263, £164 8s 8d; No 264, £208 12s 4d; No 265, £217 9s 10d; No 266, £219 10s 6d)	810	1	4
	A. Beaver, Dr	206	15	2
	R. Lockley, Dr	384	10	9
	C. Plumpton, Dr	295	16	11
	D. Looker, Dr	437	12	8

14—(6052)

19..		£	s	d.
Mar. 1	L. Turtle, Dr	85	10	6
	G. Sparker Dr	175	16	7
	Bills Payable (No. 152, £174 10s 8d; No. 153, £142 12s 9d; No 154, £118 13s 6d; No 155, £104 9s 7d)	540	6	6
	Rent Accrued, Cr	31	10	6
	Cash at Bank	1416	11	8
	Petty Cash	12	9	8
	P. Brownley, Cr	316	4	8
	K. Thomsit, Cr	279	14	6
	M. Fleesel, Cr	105	15	11
	R. Shipment, Cr	87	12	6
	H. Gladman, Cr	65	10	2
	P. Boyton, Cr	48	18	10
	His transactions for the month were—			
2	Accepted Brownley's Draft dated 1st March at 1 m/d for	195	10	3
	And was Allowed Discount	5	—	3
	Paid P. Brownley, Cheque	109	18	6
	And was Allowed Discount	5	15	8
	Paid Bill Payable No. 153	142	12	9
3	Bought Goods from P. Brownley	187	15	10
	Paid K. Thomsit, Cheque	100	1	4
4	And was Allowed Discount	5	5	4
	Received from A. Beaver, Cheque	141	7	5
	Allowed him Discount	7	8	10
5	Received Acceptance from A. Beaver dated 3rd March at 1 m/d	55	1	—
	Allowed him Discount	2	17	11
	Bill Receivable No. 264 duly met	208	12	4
	Sold Goods to A. Beaver	118	16	6
6	Received Acceptance from R. Lockley dated 4th March at 1 m/d	113	15	11
	Allowed him Discount	2	18	4
	Received from R. Lockley, Cheque	254	8	8
	Allowed him Discount	13	7	10
	Cash Sales to date	14	16	8
	Paid Wages to date	42	16	8
8	Accepted K. Thomsit's Draft dated 6th March at 1 m/d	170	—	7
	And was Allowed Discount	4	7	3
	Paid R. Shipment, Cheque	83	4	11
	And was Allowed Discount	4	7	7
	Paid Fire Insurance by Cheque	56	10	—
10	Bought Goods of K. Thomsit	95	12	8
11	Accepted H. Temperton's Draft dated 8th March at 2 m/d	175	19	9
	Received from C. Plumpton, Cheque	281	1	1
	Allowed him Discount	14	15	10
	Paid M. Fleesel, Cheque	102	11	3
	And was Allowed Discount	5	7	11
	Renewed Acceptance No. 152 to H. Temperton for 2 months with 5 per cent Interest	174	10	8
	Ready Money Purchases	16	10	9
12	Sold Goods to R. Lockley	147	12	9
13	Paid H. Gladman, Cheque	63	17	5
	And was Allowed Discount	1	12	9
	Paid Wages to date	45	11	8
	Ready Money Sales to date	26	10	5
15	Accepted M. Fleesel's Draft dated 13th March at 2 m/d	87	16	9
	Paid P. Boyton, Cheque	17	16	2
	Bought Stationery of Unique Stationery Co	37	10	6
	Received from D. Looker, Cheque	205	15	2
	Allowed him Discount	10	16	7
16	Received Acceptance from D. Looker dated 13th March at 1 m/d	215	10	5
	Allowed him Discount	5	10	6
	Ready Money Purchases	25	11	8
17	Paid Acceptance No. 154 due this day	118	13	6
	Bought Goods from M. Fleesel	86	16	8
18	Sold Goods to C. Plumpton, less 20 per cent Trade Discount	385	16	8
20	Bought Furniture of Excelsior Furniture Co.	120	10	6
	Ready Money Sales to date	19	11	6
	Paid Wages to date	46	13	9
22	Paid for Insurance Stamps	20	—	—
	C. Plumpton returned Goods (wrong colour)	12	16	8
	Received Acceptance from L. Turtle dated 20th March at 2 m/d	25	5	10
	Bought Goods from R. Shipment	116	12	9
	Received Cheque from L. Turtle	60	4	8
23	Sold Goods to D. Looker	168	10	8
	Paid Bill No. 265 into Bank for Collection	217	9	10
24	Sold Goods to T. Fetterson	98	12	7
25	Sold Goods to N. Satchley	164	13	11
	Returned Goods to M. Fleesel, not up to Sample	17	10	2
	And also Claimed for Overcharge in Price	2	6	—
	Paid Outstanding Rent by Cheque	31	17	6
	J. Marteen's Acceptance No. 263 renewed for 3 months with Interest at 5 per cent	164	8	8

19..		£	s.	d.	19..		£	s.	d.
Mar. 25	Bought Goods of H. Gladman, <i>less</i> a Trade Discount of 20 per cent	208	12	10	Mar. 29	Cash Purchases	28	13	10
26	Accepted Excelsior Furniture Co.'s Draft dated 25th March at 2 m/d	120	10	6	30	Sold Goods to B. Fresherd	198	17	4
	Received Cheque from G. Sparker	167	—	9		Drew Cheque for Petty Cash, £20, and for Private Account, £100	120	—	—
	Allowed him Discount	8	15	10		Bought Goods from S. Linton & Co., Ltd.	79	18	5
	Ready Money Sales to date	25	11	6		Received Cheque from F. Smuthers	217	17	4
	Bill No. 265 returned by Bank Dishonoured with Noting Charges 7s. 6d. (a/c F. Smuthers)	217	17	4		Received Acceptance from T. Fetterson dated 27th March at 3 m/d	50	10	8
	Paid Bill Payable No. 155 due this day	104	9	7	31	Sold Goods to C. Mumfert	125	14	11
27	Sold Goods to V. Oliver	187	19	10		Received Acceptance from N. Satchley dated 29th March at 2 m/d	35	15	6
	Paid Wages to date	48	12	4		Cash Sales to date	15	12	9
	Bought Coal of Eclipse Coal Co.	16	12	6		Received from B. Fresherd	25	10	—
	Received from V. Oliver, Cheque on Account	20	—	—		Received Demand Note for Rates	31	16	8
	Ready Money Sales to date	25	18	9		Paid Salaries to date	87	15	6
29	Bill No. 266 duly met to-day	219	10	6		Paid Sundry Expenses	18	10	4
	Sold Old Furniture for Cheque	22	10	8		Petty Cash Expenses as per Petty Cash Book	16	12	10

56

PRIVATE JOURNAL

Dr.

56

Cr.

[illegible]

PURCHASES RETURNS BOOK OR RETURNS OUTWARDS BOOK

38

Date	Particulars	Ledger Folio	Details			Total		
			£	s.	d.	£	s.	d.
19..	M. Fleesel							
Mar. 25	Goods not up to Sample		17	10	2			
	Overcharge on Balance	83		2	6	17	12	8
		71				£17	12	8

26

SALES RETURNS BOOK OR RETURNS INWARDS BOOK

26

Date	Particulars	Ledger Folio	Details			Total		
19.. Mar. 22	C. Plumpton Goods (wrong colour) Less 20% Trade Discount	163	£ 12 2	s. 16 11	d. 8 4	£ 10	s. 5	d. 4
		72				£10	5	4

47

TABULAR PURCHASES BOOK

47

Date	Particulars	Led Fol	Details			Total	Purchases	Printing and Stationery	Furniture and Fixtures	Rent, Rates, Taxes	Coal
19.. Mar. 3	P Brownley Goods	81	£	s	d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
10	K. Thomsit Goods	82				187 15 10	187 15 10				
15	Unique Stationery Co Stationery	88				37 10 6		37 10 6			
17	M. Fleesel Goods	81				86 16 8	86 16 8				
20	Excelsior Furniture Co. Furniture	89				120 10 6			120 10 6		
22	R Shipment Goods	84				110 12 9	110 12 9				
25	H. Gladman Goods Less 20% Trade Discount	85	208 12 10 41 14 7			160 18 3	160 18 3				
27	Eclipse Coal Co Coal	90				16 12 6					16 12 6
30	S. Linton & Co, Ltd Goods	91				79 18 5	79 18 5				
31	Outstanding Accounts Rates	87				31 16 8				31 16 8	
						£940 4 9	£733 14 7	£37 10 6	£120 10 6	£31 16 8	£16 12 6
							(66)	(68)	(56)	(69)	(70)

BANK CASH BOOK

26 Dr.

RECEIPTS

26

Date	Particulars	Led. Fol.	Dis- count	Details	Bank	Bought Ledger	Sales Ledger	General Ledger
			£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
19..								
Mar. 1	To Balance . . .	J.56			1416 11 8			1416 11 8
4	„ A. Beaver . . .	161	7 8 10	141 7 5			148 16 3	
5	„ Bill Receivable 264 . . .	53		208 12 4	208 12 4			208 12 4
6	„ Lockley, R. . .	162	13 7 10	254 8 8			267 16 6	
	„ Ready Money Sales . . .	57		14 16 8				14 16 8
11	„ Plumpton, C. . .	163	14 15 10	281 1 1	269 5 4		295 16 11	
13	„ Ready Money Sales . . .	57		26 10 5	281 1 1			26 10 5
15	„ Looker, D. . .	164	10 16 7	205 15 2	26 10 5		216 11 9	
20	„ Ready Money Sales . . .	57		19 11 6	205 15 2			19 11 6
22	„ Turtle, L. . .	165		60 4 8	19 11 6		60 4 8	
23	„ Bill Receivable 265 . . .	53		217 9 10	60 4 8			
26	„ Sparker, G. . .	166	8 15 10	167 - 9	217 9 10		175 16 7	
	„ Cash Sales . . .	57		25 11 6				25 11 6
27	„ Oliver, V. . .	169		20 - -	192 12 3		20 - -	
	„ Cash Sales . . .	57		25 18 9				25 18 9
29	„ Bill Receivable 266 . . .	53		219 10 6	45 18 9			219 10 6
	„ Furniture . . .	56		22 10 8	242 1 2			22 10 8
30	„ Smithers, F. . .	172		217 17 4	217 17 4		217 17 4	
31	„ Fresherd, B. . .	170		25 10 -			25 10 -	
	„ Cash Sales . . .	57		15 12 9	41 2 9			15 12 9
		64	55 4 11		3586 1 8		1428 10 -	2212 16 7
April 1	To Balance b/d . . .				1936 1 11			1936 1 11

BANK CASH BOOK

26

PAYMENTS

Cr. 26

Date	Particulars	Led Fol	Dis- count	Details	Bank	Bought Ledger	Sales Ledger	General Ledger
			£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
19..								
Mar. 2	By P. Brownley . . .	81	5 15 8		109 18 6	115 14 2		
3	„ Bill Payable 153 . . .	54			142 12 9			142 12 9
4	„ Thomsit, K . . .	82	5 5 4		100 1 4	105 6 8		
6	„ Wages . . .	58			42 16 8			42 16 8
8	„ Shipment, R. . .	84	4 7 7		83 4 11	87 12 6		
10	„ Fire Insurance . . .	61			56 10 -			56 10 -
11	„ Fleesel, M . . .	83	5 7 11		102 11 3	107 19 2		
12	„ Ready Money Purchases . . .	59			16 10 9			16 10 9
13	„ Gladman, H. . .	85	1 12 9		63 17 5	65 10 2		
	„ Wages . . .	58			45 11 8			45 11 8
15	„ Boyton, P . . .	86			17 16 2	17 16 2		
16	„ Ready Money Purchases . . .	59			25 11 8			25 11 8
17	„ Bill Payable 154 . . .	54			118 13 6			118 13 6
20	„ Wages . . .	58			46 13 9			46 13 9
22	„ Insurance Stamps . . .	62			20 - -			20 - -
25	„ Outstanding Accounts . . .	85			31 10 6	31 10 6		
26	„ F. Smithers (Dishonoured Bill and Charges) . . .	169			217 17 4		217 17 4	
	„ Bill Payable 155 . . .	54			104 9 7			104 9 7
27	„ Wages . . .	58			48 12 4			48 12 4
29	„ Cash Purchases . . .	59			28 13 10			28 13 10
30	„ Petty Cash . . .	51		20 - -				20 - -
	„ Drawing Account . . .	P L 2		100 - -				100 - -
31	„ Salaries . . .	60			120 - -			
	„ Sundry Expenses . . .	63			87 15 6			87 15 6
	„ Balance c/d . . .				18 10 4			18 10 4
					1936 1 11			1936 1 11
		65	22 9 3		3586 1 8	531 9 4	217 17 4	2859 4 3

55		SALES BOOK										55	
Date		Particulars					Ledger Folio	Details			Total		
19..								£	s.	d.	£	s.	d.
Mar. 6		A. Beaver Goods					161				118	16	6
13		R. Lockley Goods					162				147	12	9
18		C. Plumpton Goods											
		Less Trade Discount 20%					163	385	16	8			
								77	3	4	308	13	4
23		D. Looker Goods					164				168	10	8
24		T. Fetterson Goods					167				98	12	7
25		N. Satchley Goods					165				164	13	11
27		V. Oliver Goods					169				187	19	10
29		B. Fresherd Goods					169				198	17	4
30		C. Mumfert Goods					171				125	14	11
							67				£1519	11	10

37		BILLS RECEIVABLE BOOK												37			
Date		No. of Bill	From Whom Received				Led. Fol.	Dis-count		Amount of Bill		Date of Bill	Term	Due Date			
19..								£	s.	d.	£	s.	d.	19..		19..	
Mar.	5	267	A. Beaver	.	.	.	161	2	17	11	55	1	—	Mar. 3	1 m/d	April 6	
	6	268	R. Lockley	.	.	.	162	2	18	4	113	15	11	4	1 m/d	7	
	16	269	D. Looker	.	.	.	164	5	10	6	215	10	5	13	1 m/d	16	
	22	270	L. Turtle	.	.	.	165				25	5	10	20	2 m/d	May 23	
	25	271	J. Marteen	.	.	.	173				166	9	9	25	3 m/d	June 28	
	30	272	T. Fetterson	.	.	.	167				50	10	8	27	3 m/d	30	
	31	273	N. Satchley	.	.	.	168				35	15	6	29	2 m/d	June 1	
							64	£11	6	9							
							53				£662	9	1				

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BILLS PAYABLE BOOK

45

Date	No. of Bill	To Whom Given	Led. Fol.	Dis- count	Amount of Bill	Date of Bill	Term	Due Date
19..				£ s. d.	£ s. d.	19..		19..
Mar. 2	156	P. Brownley	81	5 - 3	195 10 3	Mar. 1	1 m/d	April 4
8	157	K. Thomsit	82	4 7 3	170 - 7	6	1 m/d	9
11	158	H. Temperton	92		175 19 9	8	2 m/d	May 11
15	159	M. Fleesel	83		87 16 9	13	2 m/d	16
26	160	Excelsior Furniture Co.	89		120 10 6	25	2 m/d	28
			65	£9 7 6				
			54		£749 17 10			

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COLUMNAR JOURNAL

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Date	Particulars	Led. Fol.	Dr.		Cr.		Bought Ledger		Sales Ledger	
							Dr.	Cr.	Dr.	Cr.
19..			£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Mar. 11	Bill Payable	54	174 10 8							
	To H. Temperton	92		174 10 8			174 10 8			
	To cancel Bill No. 152.									
11	Interest	73	1 9 1							
	To H. Temperton	92		1 9 1			1 9 1			
	5% on £174 10s. 8d. for two months.									
25	J. Marteen	173	164 8 8						164 8 8	
	To Bill Receivable	53		164 8 8						
	To cancel Bill No. 263.									
25	J. Marteen	173	2 1 1						2 1 1	
	To Interest	74		2 1 1						
	5% on £164 18s. 8d. for three months.									
31	Sundry Expenses	63	16 12 10							
	To Petty Cash	51		16 12 10						
	Amount expended as per Petty Cash Book.									
			£359 2 4	£359 2 4			£175 19 9	£166 9 9		

THE DETECTION AND LOCATION OF ERROR

217

86 Dr.				P. BOYTON										Cr. 86			
19.. Mar. 15		To Cash	26	£	s.	d.	19.. Mar. 1		By Balance	J.56	£	s.	d.				
				17	16	2					48	18	10				

87 Dr				OUTSTANDING ACCOUNTS										Cr. 87			
19.. Mar. 25		To Cash	26	£	s.	d.	19.. Mar. 1		By Balance	J 56	£	s.	d.				
				31	10	6					31	10	6				
							Mar. 31		By Rates	47	31	16	8				

88 Dr				UNIQUE STATIONERY COMPANY										Cr. 88			
							19.. Mar. 15		By Goods	47	£	s.	d.				
											37	10	6				

89 Dr.				EXCELSIOR FURNITURE COMPANY										Cr. 89			
Mar. 26		To Bill Payable	45	120	10	6	19.. Mar. 20		By Goods	47	£	s.	d.				
											120	10	6				

90 Dr.				ECLIPSE COAL COMPANY										Cr. 90			
							19.. Mar. 27		By Goods	47	£	s.	d.				
											16	12	6				

91 Dr.				S. LINTON & CO., LTD.										Cr. 91			
							19.. Mar. 30		By Goods	47	£	s.	d.				
											79	18	5				

92 Dr.				H. TEMPERTON										Cr. 92			
19.. Mar. 11		To Bill Payable	45	£	s.	d.	19.. Mar. 11		By Bill Payable	J.43	£	s.	d.				
				175	19	9			„ Interest	J.43	174	10	8				
											1	9	1				
				£175	19	9					£175	19	9				

93 Dr.				GENERAL LEDGER ADJUSTMENT ACCOUNT										Cr. 93			
19.. Mar. 1		To Balance	J.56	£	s.	d.	19.. Mar. 31		By Cash and Discount	26	£	s.	d.				
				1025	7	1			„ Bills Payable	45	749	17	10				
31		„ Goods	47	940	4	9			„ Discount	45	9	7	6				
		„ Transfers	J.43	175	19	9			„ Returns	38	17	12	8				
									„ Balance c/d		833	4	3				
				£	2141	11	7				£	2141	11	7			
April 1		To Balance b/d		833	4	3											

SALES OR DEBTORS' LEDGER

161 Dr.		A. BEAVER						Cr. 161		
19..			£	s.	d.	19..		£	s.	d.
Mar. 1	To Balance . . .	J.56	206	15	2	Mar. 4	By Cash . . .	26	141	7 5
							„ Discount . . .	26	7	8 10
						5	„ Bill Receivable . .	37	55	1 -
							„ Discount . . .	37	2	17 11
			£206	15	2				£206	15 2
Mar. 6	To Goods . . .	55	118	16	6					

162 Dr.				R. LOCKLEY				Cr. 162				
19..				£	s.	d.	19..			£	s.	d.
Mar. 1	To Balance . . .	J.56		384	10	9	Mar. 6	By Cash . . .	26	254	8	8
								„ Discount . . .	26	13	7	10
								„ Bill Receivable . .	37	113	15	11
								„ Discount . . .	37	2	18	4
				£384	10	9				£384	10	9
Mar. 13	To Goods . . .	55		147	12	9						

163 Dr.				C. PLUMPTON						Cr. 163									
19..				£		s.		d.		19..				£		s.		d.	
Mar. 1	To Balance	.	.	J.56	295	16	11	Mar. 11	By Cash	.	.	26	281	1	1				
									„ Discount	.	.	26	14	15	10				
					<u>£295</u>	<u>16</u>	<u>11</u>						<u>£295</u>	<u>16</u>	<u>11</u>				
Mar. 18	To Goods	.	.	55	308	13	4	Mar. 22	By Returns	✓	.	26	10	5	4				

164 Dr.			D. LOOKER						Cr. 164		
19..			£	s.	d.	19..			£	s.	d.
Mar. 1	To Balance	J.56	437	12	8	Mar. 15	By Cash	26	205	15	2
							„ Discount	26	10	16	7
						16	„ Bill Receivable . .	37	215	10	5
							„ Discount	37	5	10	6
			£437	12	8				£437	12	8
Mar. 23	To Goods	55	168	10	8						

165 Dr.			L. TURTLE						Cr. 165		
19..			£	s.	d.	19..			£	s.	d.
Mar 1	To Balance . . .	J.56	85	10	6	Mar. 22	By Cash . . .	26	60	4	8
							„ Bill Receivable . .	37	25	5	10
			£85	10	6				£85	10	6

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166 Dr.						G. SPARKER						Cr. 166					
19.. Mar. 1	To Balance . . .	J.56	£ <u>175</u>	s. 16	d. 7	19.. Mar. 26	By Cash . . .	26	£ <u>167</u>	s. 8	d. 10	19.. Mar. 26	By Cash . . .	26	£ <u>167</u>	s. 8	d. 10
			£ <u>175</u>	s. 16	d. 7		" Discount . . .	26					" Discount . . .	26	£ <u>175</u>	s. 16	d. 7
167 Dr.						T. FETTERSON						Cr. 167					
19.. Mar. 24	To Goods . . .	55	£ <u>98</u>	s. 12	d. 7	19.. Mar. 30	By Bill Receivable . . .	37	£ <u>50</u>	s. 10	d. 8	19.. Mar. 30	By Bill Receivable . . .	37	£ <u>50</u>	s. 10	d. 8
168 Dr.						N. SATCHLEY						Cr. 168					
19.. Mar. 25	To Goods . . .	55	£ <u>164</u>	s. 13	d. 11	19.. Mar. 31	By Bill Receivable . . .	37	£ <u>35</u>	s. 15	d. 6	19.. Mar. 31	By Bill Receivable . . .	37	£ <u>35</u>	s. 15	d. 6
169 Dr.						V. OLIVER						Cr. 169					
19.. Mar. 27	To Goods . . .	55	£ <u>187</u>	s. 19	d. 10	19.. Mar. 27	By Cash on Account . . .	26	£ <u>20</u>	s.	d.	19.. Mar. 27	By Cash on Account . . .	26	£ <u>20</u>	s.	d.
170 Dr.						B. FRESHERD						Cr. 170					
19.. Mar. 29	To Goods . . .	55	£ <u>198</u>	s. 17	d. 4	19.. Mar. 31	By Cash on Account . . .	26	£ <u>25</u>	s. 10	d.	19.. Mar. 31	By Cash on Account . . .	26	£ <u>25</u>	s. 10	d.
171 Dr.						C. MUMFERT						Cr. 171					
19.. Mar. 30	To Goods . . .	55	£ <u>125</u>	s. 14	d. 11												
172 Dr.						F. SMITHERS						Cr. 172					
19.. Mar. 26	To Cash (Dishonoured Bill and Charges) . . .	26	£ <u>217</u>	s. 17	d. 4	19.. Mar. 30	By Cash . . .	26	£ <u>217</u>	s. 17	d. 4	19.. Mar. 30	By Cash . . .	26	£ <u>217</u>	s. 17	d. 4
173 Dr.						J. MARTEEN						Cr. 173					
19.. Mar. 25	To Bill Receivable . . .	J.43	£ <u>164</u>	s. 8	d. 8	19.. Mar. 25	By Bill Receivable . . .	37	£ <u>166</u>	s. 9	d. 9	19.. Mar. 25	By Bill Receivable . . .	37	£ <u>166</u>	s. 9	d. 9
	" Interest . . .	J.43	2	1	1												
			£ <u>166</u>	s. 9	d. 9										£ <u>166</u>	s. 9	d. 9
174 Dr.						GENERAL LEDGER ADJUSTMENT ACCOUNT						Cr. 174					
19.. Mar. 31	To Cash and Discount . . .	26	£ <u>1428</u>	s. 10	d.	19.. Mar. 1	By Balance . . .	J.56	£ <u>1586</u>	s. 2	d. 7	19.. Mar. 31	By Balance . . .	J.56	£ <u>1586</u>	s. 2	d. 7
	" Bill Receivable . . .	37	662	9	1	31	" Goods . . .	55	1519	11	10		" Goods . . .	55	1519	11	10
	" Discount . . .	37	11	6	9		" Cash . . .	26	217	17	4		" Cash . . .	26	217	17	4
	" Returns . . .	29	10	5	4		" Transfers . . .	J.43	166	9	9		" Transfers . . .	J.43	166	9	9
	" Balance c/d . . .		1377	10	4												
			£ <u>3490</u>	s. 1	d. 6										£ <u>3490</u>	s. 1	d. 6
						April 1	By Balance b/d . . .						By Balance b/d . . .		1377	10	4

BOOK-KEEPING AND OFFICE WORK

GENERAL OR IMPERSONAL LEDGER

51 Dr. PETTY CASH Cr. 51									
19.. Mar. 1	To Balance . . .	J.56	£	s.	d.	19.. Mar. 31	By Sundry Expenses .	J.43	£ s d. 16 12 10
30	„ Cash . . .	26	12	9	6				
			20	—	—				
52 Dr. STOCK Cr. 52									
19.. Mar. 1	To Balance . . .	J.56	£	s.	d.				
			1389	15	10				
53 Dr. BILLS RECEIVABLE Cr. 53									
19.. Mar. 1	To Balance . . .	J.56	£	s.	d.	19.. Mar. 5	By Cash . . .	26	£ s d. 208 12 4
			810	1	4	23	„ „ . . .	26	217 9 10
						29	„ „ . . .	26	219 10 6
						25	„ J. Marteen . . .	J.43	164 8 8
			£810	1	4				£810 1 4
Mar. 31	To Sundry Debtors .	37	662	9	1				
54 Dr. BILLS PAYABLE Cr. 54									
19.. Mar. 3	To Cash . . .	26	£	s.	d.	19.. Mar. 1	By Balance . . .	J.56	£ s d. 540 6 6
17	„ „ . . .	26	142	12	9				
26	„ „ . . .	26	118	13	6				
11	„ H. Temperton . . .	J.43	104	9	7				
			174	10	8				
			£540	6	6				£540 6 6
						Mar. 31	By Sundry Creditors .	45	749 17 10
55 Dr. PLANT AND MACHINERY Cr. 55									
19.. Mar. 1	To Balance . . .	J.56	£	s.	d.				
			2854	13	9				
56 Dr. FURNITURE AND FIXTURES Cr. 56									
19.. Mar. 1	To Balance . . .	J.56	£	s.	d.	19.. Mar. 29	By Cash . . .	26	£ s d. 22 10 8
31	„ Sundry Creditors .	47	472	18	6				
			120	10	6				
57 Dr. CASH SALES Cr. 57									
						19.. Mar. 6	By Cash . . .	26	£ s d. 14 16 8
						13	„ „ . . .	26	26 10 5
						20	„ „ . . .	26	19 11 6
						26	„ „ . . .	26	25 11 6
						27	„ „ . . .	26	25 18 9
						31	„ „ . . .	26	15 12 9

58 Dr.		WAGES										Cr. 58	
19..						£	s.	d.					
Mar. 6	To Cash	.	.	.	26	42	16	8					
13	" "	.	.	.	26	45	11	8					
20	" "	.	.	.	26	46	13	9					
27	" "	.	.	.	26	48	12	4					

59 Dr.		CASH PURCHASES										Cr. 59	
19..						£	s.	d.					
Mar. 12	To Cash	.	.	.	26	16	10	9					
16	" "	.	.	.	26	25	11	8					
29	" "	.	.	.	26	28	13	10					

60 Dr.		SALARIES										Cr. 60	
19..						£	s.	d.					
Mar. 31	To Cash	.	.	.	26	87	15	6					

61 Dr.		FIRE INSURANCE										Cr. 61	
19..						£	s.	d.					
Mar. 10	To Cash	.	.	.	26	56	10	—					

62 Dr.		INSURANCE STAMPS										Cr. 62	
19..						£	s.	d.					
Mar. 22	To Cash	.	.	.	26	20	—	—					

63 Dr.		SUNDRY EXPENSES										Cr. 63	
19..						£	s.	d.					
Mar. 31	To Cash	.	.	.	26	18	10	4					
	" Petty Cash	.	.	J.43		16	12	10					

64 Dr.		DISCOUNTS ALLOWED										Cr. 64	
19..						£	s.	d.					
Mar. 31	To Sundry Debtors	.	C.B.26			55	4	11					
	" "	.	B.B.37			11	6	9					

65 Dr.		DISCOUNTS RECEIVED										Cr. 65	
						19..							
						Mar. 31	By Sundry Creditors	.	C.B.26		£	s.	d.
							" " "	.	B.B.45		22	9	3
											9	7	6

66 Dr.		PURCHASES										Cr. 65	
19..						£	s.	d.					
Mar. 31	To Sundry Creditors	.		47		733	14	7					

67 Dr.		SALES										Cr. 67	
						19..							
						Mar. 31	By Sundry Debtors	.	55		£	s.	d.
											1519	11	10

68 Dr.		PRINTING AND STATIONERY										Cr. 68	
19..	Mar. 31	To Sundry Creditors	47	£	s.	d.							
				37	10	6							
69 Dr.		RENT, RATES, AND TAXES										Cr. 69	
19..	Mar. 31	To Sundry Creditors	47	£	s.	d.							
				31	16	8							
70 Dr.		COAL										Cr. 70	
19..	Mar. 31	To Sundry Creditors	47	£	s.	d.							
				16	12	6							
71 Dr.		PURCHASES RETURNS										Cr. 71	
							19..						
							Mar. 31	By Sundry Creditors	38	£	s.	d.	
										17	12	8	
72 Dr.		SALES RETURNS										Cr. 27	
19..	Mar. 31	To Sundry Debtors	26	£	s.	d.							
				10	5	4							
73 Dr.		INTEREST PAYABLE										Cr. 73	
19..	Mar. 11	To H. Temperton	J.43	£	s.	d.							
				1	9	1							
74 Dr.		INTEREST RECEIVABLE										Cr. 74	
							19..						
							Mar. 25	By J. Marteen	J.43	£	s.	d.	
										2	1	1	
75 Dr.		BOUGHT LEDGER ADJUSTMENT ACCOUNT										Cr. 75	
19..	Mar. 31	To Cash and Discount	26	£	s.	d.	19..						
				531	9	4	Mar. 1	By Balance	J.56	£	s.	d.	
		„ Bill Payable	45	749	17	10	31	„ Purchases	47	1025	7	1	
		„ Discount	45	9	7	6		„ Transfers	J.43	940	4	9	
		„ Returns	38	17	12	8				175	19	9	
		„ Balance c/d		833	4	3							
				£	2141	11	7			£	2141	11	7
							April 1	By Balance b/d		833	4	3	
76 Dr.		SALES LEDGER ADJUSTMENT ACCOUNT										Cr. 76	
19..	Mar. 1	To Balance	J.56	£	s.	d.	19..						
				1586	2	7	Mar. 31	By Cash and Discount	26	1428	10	—	
		„ Cash	26	217	17	4		„ Returns	29	10	5	4	
		„ Goods	55	1519	11	10		„ Bill Receivable	37	662	9	1	
		„ Transfers	J.43	166	9	9		„ Discount		11	6	9	
								„ Balance c/d		1377	10	4	
				£	3490	1	6			£	3490	1	6
April 1		To Balance b/d		1377	10	4							

PRIVATE LEDGER

1 Dr.		CAPITAL ACCOUNT						Cr. 1	
					19..				
					Mar. 1	By Balance . . .	J.56	£	s. d.
								6976	19 7

2 Dr.		DRAWING ACCOUNT						Cr. 2	
					19..				
					Mar. 30	To Cash . . .	26	£	s. d.
								100	- -

BOUGHT LEDGER TRIAL BALANCE

31ST MARCH, 19..

		Dr.			Cr.		
Ledger Folio		£	s.	d.	£	s.	d.
81	Brownley, P.				187	15	10
82	Thomsit, K.				95	12	8
83	Fleesel, M.				69	4	-
84	Shipment, R.				116	12	9
85	Gladman, H.				166	18	3
86	Boyton, P.				31	2	8
87	Outstanding Accounts				31	16	8
88	Unique Stationery Co.				37	10	6
90	Eclipse Coal Co.				16	12	6
91	Linton & Co., Ltd.				79	18	5
92	General Ledger Adjustment Account	833	4	3			
		£833	4	3	£833	4	3

SALES LEDGER TRIAL-BALANCE

31ST MARCH, 19..

		Dr.			Cr.		
Ledger Folio		£	s.	d.	£	s.	d.
161	Beaver, A.	118	16	6			
162	Lockley, R.	147	12	9			
163	Plumpton, C.	298	8	-			
164	Looker, D.	168	10	8			
165	Fetterson, T.	48	1	11			
166	Satchley, N.	128	18	5			
169	Oliver, V.	167	19	10			
170	Fresherd, B.	173	7	4			
171	Mumfert, C.	125	14	11			
173	General Ledger Adjustment Account				1377	10	4
		£1377	10	4	£1377	10	4

GENERAL LEDGER TRIAL BALANCE

31ST MARCH, 19..

Dr

Cr.

Ledger Folio		£	s.	d.	£	s.	d.
51	Petty Cash	15	16	8			
52	Stock	1389	15	10			
53	Bills Receivable	662	9	1			
54	Bills Payable				749	17	10
55	Plant and Machinery	2854	13	9			
56	Furniture and Fixtures	570	18	4			
57	Cash Sales				128	1	7
58	Wages	183	14	5			
59	Cash Purchases	70	16	3			
60	Salaries	87	15	6			
61	Fire Insurance	56	10	—			
62	Insurance Stampes	20	—	—			
63	Sundry Expenses	35	3	2			
64	Discounts Allowed	66	11	8			
65	Discounts Received				31	16	9
66	Purchases	733	14	7			
67	Sales				1519	11	10
68	Printing and Stationery	37	10	6			
69	Rent, Rates, Taxes	31	16	8			
70	Coal	16	12	6			
71	Purchases Returns				17	12	8
72	Sales Returns	10	5	4			
73	Interest Payable	1	9	1			
74	Interest Receivable				2	1	1
75	Bought Ledger Adjustment Account				833	4	3
76	Sales Ledger Adjustment Account	1377	10	4			
1	Private Ledger				6976	19	7
2	Private Ledger	100	—	—			
26	Cash at Bank	1936	1	11			
		£10,259	5	7	£10,259	5	7

Procedure Where Ledgers are Numerous

In large businesses, where there are several Bought and Sold Ledgers in use, the system of having analytical columns for the Ledgers in each of the subsidiary books could not conveniently be adopted, as the books would become too cumbersome. Departmental columns are provided, however, in the books of first entry, if so required.

The work of Ledger analysis is, therefore, carried out by means of loose sheets ruled with the necessary columns. The various Ledgers themselves are provided with a special distinguishing mark or letter, and this is inserted in the folio column of the subsidiary book when the item is posted into its particular Ledger. For instance, all items in Ledger No. 1 would, when being posted, have the figure 1 prefixed

to the folio ; items in Ledger No. 2 would have the figure 2 prefixed to the folio ; and so on.

The analytical columns are added both vertically and horizontally, so that by means of cross casts a check is established on the totals of the analysis sheets. The vertical totals of the sheets must also agree with the total of the book so analysed.

The totals of the various sheets are finally copied into a Summary Book, and the Adjustment Accounts forthwith prepared. The Adjustment Accounts can either be prepared separately for each Ledger, or they may all be constructed together in tabular form. The total of the Adjustment Accounts supplies the total amount of debtors and creditors required for the Balance Sheet. The following examples of both rulings and figures, together with Adjustment Accounts, will serve to illustrate clearly the method outlined above—

ANALYSIS OF SALES BOOK
SALES LEDGERS

1			2			3			4			5			6			Total		
£ 24	s. 16	d. 10	£ 36	s. 18	d. 9	£ 36	s. 19	d. 11	£ 24 etc. etc. etc.	s. 8	d. 10	£ 45	s. 10	d. 6	£ 64	s. 16	d. 7	£ 107 126	s. 7 4	d. 3 2
236	10	6	345	16	8	210	10	8	346	17	6	278	18	10	264	14	3	1683	8	5

ANALYSIS OF SALES RETURNS BOOK
SALES LEDGERS

1			2			3			4			5			6			Total		
£ 10	s. 3	d. 8	£ 15	s. 16	d. 10	£ 20	s. 7	d. 8	£ 26 etc. etc. etc.	s. 19	d. 10	£ 15	s. 17	d. 11	£ 14	s. 19	d. 11	£ 46 57	s. 9 16	d. 3 7
56	10	11	46	18	9	56	13	6	65	10	8	76	17	11	63	13	10	366	5	7

ANALYSIS OF BILLS RECEIVABLE BOOK
SALES LEDGERS

1			2			3			4			5			6			Total		
£ 59	s. 18	d. 6	£ 43	s. 9	d. 7	£ 54	s. 18	d. 7	£ 38 etc. etc. etc.	s. 10	d. 4	£ 76	s. 12	d. 8	£ 74	s. 18	d. 10	£ 191 156	s. 9 18	d. 9 9
154	10	8	123	9	5	154	16	6	132	10	3	145	13	5	132	18	11	843	19	2

BOOK-KEEPING AND OFFICE WORK

ANALYSIS OF TRANSFERS (DEBITS)

SALES LEDGERS

1			2			3			4			5			6			Total		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
18	16	10	14	18	2	12	15	10	12	16	10	14	6	9	13	15	11	45	19	5
									etc.									41	10	11
									etc.											
									etc.											
34	15	9	43	15	8	35	18	6	45	10	6	36	18	9	46	12	11	243	12	1

ANALYSIS OF TRANSFERS (CREDITS)

SALES LEDGERS

1			2			3			4			5			6			Total		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
5	10	9	14	19	7	13	8	11	13	9	8	16	19	7	21	10	11	35	19	3
									etc.									50	-	2
									etc.											
									etc.											
34	19	6	56	2	6	45	9	7	65	15	4	54	10	6	47	18	6	304	15	11

ANALYSIS OF PURCHASES BOOK

BOUGHT LEDGERS

1			2			3			4			5			6			Total		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
104	18	10	98	19	7	167	14	8	123	10	8	123	9	5	123	19	11	396	2	11
									etc.									346	10	2
									etc.											
									etc.											
245	18	10	254	9	5	236	18	9	245	15	6	253	18	8	264	18	7	1501	19	9

ANALYSIS OF PURCHASES RETURNS BOOK
BOUGHT LEDGERS

1			2			3			4			5			6			Total		
£ 10	s. 7	d. 8	£ 14	s. 8	d. 2	£ 15	s. 8	d. 8	£ 28 etc. etc. etc.	s. 7	d. 5	£ 21	s. 8	d. 10	£ 32	s. 5	d. 11	£ 47 75	s. 5 1	d. 2 6
75	19	10	83	14	8	75	16	9	93	16	6	75	13	9	69	13	10	474	15	4

ANALYSIS OF BILLS PAYABLE BOOK
BOUGHT LEDGERS

1			2			3			4			5			6			Total		
£ 45	s. 13	d. 8	£ 75	s. 14	d. 9	£ 53	s. 19	d. 7	£ 43 etc. etc. etc.	s. 12	d. 8	£ 64	s. 18	d. 6	£ 83	s. 15	d. 10	£ 164 203	s. 11 3	d. 9 3
103	17	8	105	19	5	125	17	9	132	6	8	126	8	4	132	18	5	727	8	3

ANALYSIS OF TRANSFERS (DEBITS)
BOUGHT LEDGERS

1			2			3			4			5			6			Total		
£ 12	s. 8	d. 9	£ 27	s. 16	d. 8	£ 15	s. 1	d. 10	£ 14 etc. etc. etc.	s. 6	d. 8	£ 17	s. 6	d. 8	£ 15	s. 3	d. 11	£ 44 57	s. 17 7	d. 3 3
65	18	7	87	5	8	95	8	7	79	8	4	68	5	3	85	9	11	481	16	4

ANALYSIS OF TRANSFERS (CREDITS)
BOUGHT LEDGERS

1			2			3			4			5			6			Total		
£ 13	s. 8	d. 7	£ 16	s. 8	d. 7	£ 15	s. 6	d. 10	£ 14 etc. etc. etc.	s. 3	d. 8	£ 14	s. 13	d. 8	£ 21	s. 8	d. 11	£ 43 52	s. 9 1	d. 1 2
57	19	10	67	8	5	78	5	9	89	7	4	58	8	6	67	5	8	418	15	6

BOOK-KEEPING AND OFFICE WORK

ANALYSIS OF CASH BOOK (RECEIPTS SIDE)

SALES LEDGER						BOUGHT LEDGERS	GENERAL LEDGER	SPECIAL ITEMS	TOTAL
1	2	3	4	5	6				
£ s. d. 25 16 8	£ s. d. 54 10 8	£ s. d. 34 19 8	£ s. d. 63 14 6 etc. etc. etc.	£ s. d. 45 7 10	£ s. d. 43 8 5	£ s. d. 15 17 4	£ s. d. 125 19 10	£ s. d. 345 10 8	£ s. d. 467 12 2 287 13 5
215 10 8	206 7 10	187 9 6	218 6 3	297 8 1	275 9 8	56 17 9	254 19 7	546 11 9	2259 1 1

Dr.

SALES LEDGER

Particulars	LEDGERS						Total
	1	2	3	4	5	6	
To Balance, 1st January	£ s. d. 365 10 8	£ s. d. 432 10 9	£ s. d. 347 18 6	£ s. d. 416 17 4	£ s. d. 432 8 7	£ s. d. 348 12 9	£ s. d. 2343 18 7
„ Goods	236 10 6	345 16 8	210 10 8	346 17 6	278 18 10	264 14 3	1683 8 5
„ Cash (Dishonoured Bills)	138 9 11		87 16 4		98 1 6		324 7 9
„ Transfers	34 15 9	43 15 8	35 18 6	45 10 6	36 18 9	46 12 11	243 12 1
	£775 6 10	£822 3 1	£682 4 -	£809 5 4	£846 7 8	£659 19 11	£4595 6 10
To Balance, 1st February	313 15 1	389 4 7	237 14 11	327 2 10	271 17 9	139 19 -	1679 14 2

Dr.

BOUGHT LEDGER

Particulars	LEDGERS						Total
	1	2	3	4	5	6	
To Cash and Discount	£ s. d. 187 6 4	£ s. d. 189 6 8	£ s. d. 145 9 7	£ s. d. 198 7 6	£ s. d. 145 6 10	£ s. d. 134 7 5	£ s. d. 1000 4 4
„ Bills Payable and Discount	103 17 8	105 19 5	125 17 9	132 6 8	126 8 4	132 18 5	727 8 3
„ Returns	75 19 10	83 14 8	75 16 9	93 16 6	75 13 9	69 13 10	474 15 4
„ Transfers	65 18 7	87 5 8	95 8 7	79 8 4	68 5 3	85 9 11	481 16 4
„ Balance, 31st January	213 4 2	121 11 4	208 19 11	155 11 6	161 2 2	255 12 5	1116 1 6
	£646 6 7	£587 17 9	£651 12 7	£659 10 6	£576 16 4	£678 2 -	£3800 5 9

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BOUGHT LEDGERS																		SALES LEDGERS			GENERAL LEDGER			SPECIAL ITEMS			TOTAL											
1			2			3			4			5			6																							
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.			
23	8	7				53	18	6				75	13	8				138	9	11				68	10	8				75	8	6	366	19	2	295	13	4
			74	19	6				67	9	3				84	13	11																					
									etc.																													
									etc.																													
									etc.																													
									etc.																													
187	6	4	189	6	8	145	9	7	198	7	6	145	6	10	134	7	5	324	7	9	365	8	5	235	8	7	1925	9	1									

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Particulars	LEDGERS												Total								
	1		2		3		4		5		6										
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.			
By Cash and Discount	215	10	8	206	7	10	187	9	6	218	6	3	297	8	1	275	9	8	1400	12	-
„ Bills Receivable and Discount	154	10	8	123	9	5	154	16	6	132	10	3	145	13	5	132	18	11	843	19	2
„ Returns	56	10	11	46	18	9	56	13	6	65	10	8	76	17	11	63	13	10	366	5	7
„ Transfers	34	19	6	56	2	6	45	9	7	65	15	4	54	10	6	47	18	6	304	15	1
„ Balance, 31st January	313	15	1	389	4	7	237	14	11	327	2	10	271	17	9	139	19	-	1679	14	2
	£775	6	10	£822	3	1	£682	4	-	£809	5	4	£846	7	8	£659	19	11	£4595	6	10

Cx.

Particulars	LEDGERS																		Total		
	1			2			3			4			5			6					
	£	s	d	£	s.	d.	£	s.	d.	£	s.	d	£	s	d.	£	s	d.	£	s.	d
By Balance, 1st January	326	10	7	265	19	11	312	18	5	324	7	8	246	18	5	345	17	9	1822	12	9
„ Goods	245	18	10	254	9	5	236	18	9	245	15	6	253	18	8	264	18	7	1501	19	9
„ Cash	15	17	4				23	9	8				17	10	9				56	17	9
„ Transfers	57	19	10	67	8	5	78	5	9	89	7	4	58	8	6	67	5	8	418	15	6
	£646	6	7	£587	17	9	£651	12	7	£659	10	6	£576	16	4	£678	2	—	£3800	5	9
By Balance, 1st February	213	4	2	121	11	4	208	19	11	155	11	6	161	2	2	255	12	5	1116	1	6

CHAPTER XVIII

PAYMENT AND RECORD OF WAGES AND SALARIES

THE office worker whose duties are associated with the payment of wages need not concern himself with sentimental aspects of the subject. If the pay sheet is a long one and there are many envelopes to fill, he may be more anxious to check up the overtime calculations, than to become introspective over social causes and consequences.

None the less it is a good policy for such an office worker to review his task in the light of facts as they are, and of the theories that underlie the various methods of payment for work done.

It is probable that more discontent and more difficulty in social advance result from the pay sheet than from any other cause in commerce; and very often it is the man who has the handling of that sheet who, by his experience, can afford a clue to some solution of the many little problems of discontent.

It is very clear that at the present time there is sweeping, through the world of commerce, a general sense that methods of remuneration need not always be causes of social unrest: that there is no reason why they should not point a way to increased prosperity, for masters and men alike, and thus benefit the whole of humanity.

One fact appears to be obvious, that every practical solution of the wages question will be found by those who are personally affected:

the employers who pay the wages and the employees who earn them. The hope for the establishment of economic laws by Act of Parliament is vain and futile, and the yet wilder hope of settling the difficulties by slogans and war-cries is even worse, as it loses time.

One great advance has been made within a few decades. We are nearly all "wage-slaves" now, so the stigma is removed from being employed. Even the managing director draws his salary, and the professional man accepts his weekly envelope or his monthly cheque.

We all work for masters nowadays, the shop assistant for a retailer; the qualified accountant for a manufacturer or merchant; the managing director for his board of directors; and the suburban trader for his numerous customers.

Wages Books

Wages books are of many sorts, shapes, and sizes, and rulings are both numerous and varied. It is quite impossible to be exhaustive, but a few specimens should prove both useful and instructive.

Works Wages Book

The following specimen is suitable for a small works, where the men are paid by the hour, and fill up time sheets which have to be passed and signed by the foreman.

WORKS WAGES BOOK															
WEEK ENDING FRIDAY.....19..															
No.	Name	Hours Worked						Rate per Hour	Gross Wages	Deductions		Net Wages			
		Sat.	Mon.	Tues.	Wed.	Thurs.	Fri.			Total	Health and Pensions		Unemployment		
	Jones, Alfred	4½	8½	8½	8½	8½	8½	47	2s	£ 4 14 -	£ s. d. 9	£ s. d. 7	£ s. d. 4 12 8		

Warehouse Wages Book and Office Salaries Book

The following specimen is suitable for a warehouse (or office) where the employees are paid a fixed weekly wage—

Departmental Wages Book

A ruling suitable for wholesale and retail establishments where separate accounts have to be kept of the wages and salaries of each department, is given at the top of the following page.

WAREHOUSE WAGES (OR OFFICE SALARIES) BOOK

WEEK ENDING SATURDAY... 19..

Name	Gross Wages	Employee's Contributions			Net Wages	Employer's Contributions		
		Health and Pensions	Unemployment	Total		Health and Pensions	Unemployment	Total
Brown, H. J.	£ 1 1 -	£ 9	£ 7	£ 1 4	£ 2 8	£ 9	£ 5	£ 1 5
Jones, Eva	£ 2 7 6	£ 6	£ 6	£ 1 -	£ 2 6 6	£ 7	£ 7	£ 1 2

The two Total columns are very useful for reckoning up the total value of the insurance stamps required.

Overtime Wages Book

Overtime is sometimes worked in warehouses and stores, and is paid for, and must, therefore, be included in the Wages Book. The following is a suitable ruling—

Health, Pensions, and Unemployment Contributions

Both employer and employee are bound by law to contribute stated amounts to the Health and Pensions Insurance Fund and the Unemployment Insurance Fund. The contributions of a female employee are less than those of a male employee. The employer is specially empowered by law to deduct the employee's

OVERTIME WAGES BOOK

Name	WEEK ENDING..... 19..				WEEK ENDING..... 19..			
	Wages	Overtime	Deductions	Amount Paid	Wages	Overtime	Deductions	Amount Paid
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.

The above ruling could, of course, be continued for four weeks on a page. The idea of the tabular or columnar Wages Book is to avoid rewriting, more often than is absolutely necessary, the same weekly list of names.

contribution from the employee's wages. Where the employee's wages or salary exceeds £250, there is no obligation to contribute.

The contribution is made by means of special insurance and unemployment stamps which

DEPARTMENTAL WAGES BOOK

WEEK ENDING.....19..

Name	DRAPEY									OUTFITTING									BOOTS AND SHOES								
	Wages			Deduc-tions			Net			Wages			Deduc-tions			Net			Wages			Deduc-tions			Net		
	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d

must be affixed to the appropriate cards. The cards are issued half-yearly.

The usual procedure in the case of small businesses is for a supply of stamps to be bought each week sufficient for that week's requirements. The card or cards of each employee must have the appropriate stamp affixed, and

Insurance Stamp Cancellor

The Insurance Cancellor is a Multipost machine that deals only with health and pensions and unemployment insurance stamps. This machine cuts off the stamp, moistens, and affixes it in the centre of the square on the insurance card. It also records the issue, and cancels the stamp by imprinting the date on it.

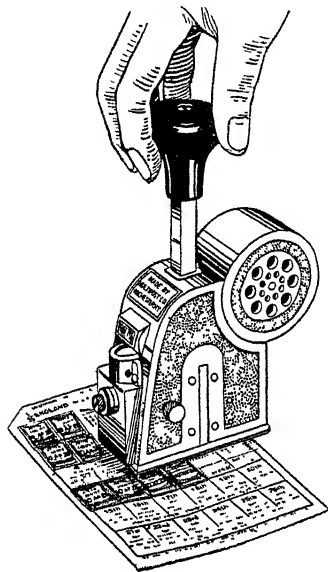
All this is performed in one operation. The health and pensions stamps, value rs. 6d. and rs. 1d., are obtainable from the Post Office in rolls of 480, and are delivered by the machine bottom end first.

In the case of unemployment insurance the stamps, value rs. 3d. and rs. 1d., are obtainable from the Post Office in rolls of 480, but are coiled sideways like postage stamps, and are, therefore, delivered by the machine left side first. A complete set of type, covering each day of each month, is supplied with the machine.

When insurance stamps are affixed by hand, there is the objectionable process of licking the stamps, and the labour of cancelling them when affixed on the cards. But when the Insurance Cancellor is used, both operations are performed automatically.

Recording Wages

The entries necessary to record the wages and salaries are, in the case of a small business, simple, just a matter of crediting the Cash Book with the total amount of the wages paid and debiting the Wages Account. This will include the employee's contribution to the National Health Insurance and Unemployment Insurance, but an entry will be needed to record the employer's contribution to these funds. This will be made in the Cash Book on the credit side and debited to, say, a National Insurance Account.



MERKHAM INSURANCE STAMP CANCELLER

this must be cancelled either by writing or stamping on it the date. It can be seen that in a large factory this procedure would occupy too much time and consequently a machine is utilized. This is known as the Insurance Stamp Cancellor,

In the case of large firms with numerous employees, however, it is the usual custom to purchase a stock of Health Insurance and Unemployment stamps periodically, and debiting the National Insurance Account with the total value. When the wages are paid, the usual entry will be made in the Cash Book for the net amount obtained from the Wages Book, and an adjusting entry put through the Journal for the amount of the employees' contributions. The National Insurance Account would be credited and the Wages Account debited, thus bringing the Wages Account to the total amount for the week. At the end of the financial period the stock of insurance stamps would be ascertained, credited to the National Insurance Account, the account balanced, and the stock brought down. The balance of the account represents the amount of the employers' contributions and would be transferred to the Profit and Loss Account.

Payment of Non-Manual Workers

The Staff, other than manual workers, are paid a fixed weekly or monthly sum. The clerical staff are usually paid weekly, though in some offices they are all paid monthly. And, because of this, some of the junior staff are in affluent circumstances for the first half of the month, and in a state of indigence the latter half of the month. To avoid this, some of the large business firms make it optional with their clerical and non-manual workers whether salaries shall be paid weekly or monthly.

Agreement has to be arrived at as to the period of notice necessary on leaving the firm's service ; for, otherwise, the period of payment would determine the period of notice. Monthly salaries are usually paid by order cheque to the employee concerned, and his endorsement of the cheque then becomes the firm's receipt for the payment.

Where weekly payments are the rule, there is, in some firms, enclosed in the pay envelope a receipt slip, which has to be signed by the employee and placed through a slit into a locked box. By this means, the amount of each individual salary is kept secret. The receipts are subsequently collected and filed.

It is possible, to a great extent, to guard against mistakes, and also against dishonesty, by having one clerk or clerks to prepare the Wages Sheets or Book or Records, wages receipts, and pay envelopes, and by having another clerk or clerks to do the actual paying, and by changing even these occasionally.

In such cases, the Wages Sheets should be signed by those who do the actual paying, so that there can be no doubt subsequently as to the party or parties directly responsible for any week's disbursement.

With regard to wages for holidays, these are usually paid in advance, the amount being drawn along with the week's wages. In some firms, however, a Holiday Wages Fund is created, and such payments are made from it, and subsequently recouped from the wages for the week that the employee is on holiday.

This fund is rendered necessary because the weekly wages figures are used for comparative statistical purposes, and one week's or two weeks' extra wages of any individual or individuals would render the figures useless for such purposes.

When an employee leaves, care must be taken to see that his name is deleted from the Wages Book or Sheets, as fraud has frequently come to light from this source. Dishonest departmental heads and unscrupulous branch managers have been discovered drawing the wages of individuals no longer in the firm's employ.

In some firms, the staff call at the pay office and obtain their envelopes. In other firms, the cashier, or a responsible official, goes round to each employee at his work ; this prevents any confusion, or crush, or any wasting of time.

Remuneration of Factory Labour

Manual labour is remunerated in various ways, and in the following paragraphs the different methods of payment are presented.

Day-Rate or Time-Rate Method

The oldest method, known as the *Day-Rate Method*, or the *Time-Rate Method*, consists in paying the worker so much per hour irrespective of the amount actually done. It is called the Day-Rate Method, because it is based on so many hours a day ; it is called the Time-Rate Method, because payment is actually made at so much per hour.

The hours and parts of hours worked each day are recorded, and totalled at the end of the working week, payment being made at the fixed rate per hour. A system of supervision is provided in order to guard against idleness or slackness on the part of the employees.

This method, however, is most suitable for non-productive workers, where it is impossible to gauge the amount of work done, and "time" is the only possible basis for valuing their

services. For productive workers it has some disadvantages. Under this system, a first-class workman receives just the same as a second-rate man, or even one still less efficient. Further, a workman would not, if he saw it, suggest any improved method of doing the work, because only the employer would benefit.

Piece-Rate Method

The *Piece-Rate Method* is another well-known system of remuneration for labour. This is especially suitable for productive workers, i.e. those actually engaged in manufacturing. The Day-Rate Method is not suitable for such workers, since rate per hour and quantity of work done are not correlated, and there is therefore no incentive to more than average output.

Under the Piece-work Method, the worker is not paid a rate per hour, but a rate *per piece done*, irrespective of the time he takes. Thus, supposing a worker is given 48 pieces to complete in a week, at the standard rate of 2s. per piece; then, if he completes them in a week, his weekly wage will be £4 16s. If the week consists of 48 hours, and if the rate for his kind of work is 2s. per hour, then he will have earned his usual wage. Supposing, however, that he takes only 38 hours, his wages will still be £4 16s., as he is paid for piece-work; but his rate per hour will have been increased to just over 2s. 6d. This gives him an incentive to reduce his time. Such a rate is called a "straight" piece-rate.

A piece-rate may also be "differential." In such cases, an extra percentage is given if the standard output is exceeded. With some piece-work systems, if a workman does not produce the standard quantity, he is allowed to draw the minimum guaranteed weekly wage, but is debited with the difference, which he has to make good out of a subsequent surplus.

Advantages and Disadvantages of Piece-Work System

The piece-work system has some advantages. There is a direct incentive to increased effort; there is less need for constant supervision. The wages earned, or the debt contracted, will keep the employer well informed as to the workman's manner of work.

The serious drawback of the Piece-Rate Method, however, is the temptation to the employer to "cut" rates when he finds workmen earning an extremely high wage. Competition may compel an employer to reduce his

selling prices, and when such reduction has reached its limit, the next step is to reduce the piece-work rate. This leads the workman to ascertain just how much is necessary to earn his average wage, and he then limits production accordingly.

Rate-cutting has been the cause of many bitter disputes and some grievous strikes, and in many other cases has led to the adoption of "ca'canny" tactics on the part of the workers. "Ca'canny" (pronounced "kaw kan'ne") means "go easy"; in other words, deliberately restrict output. The piece-rates need careful and accurate fixing in the first place. To cut them subsequently is to cause bad feeling and engender a suspicion that the men are earning too high wages for the liking of the management, a suspicion that is the usual harbinger of serious strife. And when given a new job, which he thinks will determine the future piece-rate, the workman is tempted to lengthen the time for it as much as possible, so that either he or one of his fellow-workers will be able to make something out of it.

High-Wage Plan

The *High-Wage Plan* is a further method of paying for labour. It is based on a daily wage. The rates offered are 30 to 40, and even 50 per cent in some cases, higher than the rates prevailing in the district. Employees are stimulated to their utmost endeavours, and employers can demand the highest standard of work.

Production Bonuses

Production Bonuses are another well-known method of remunerating labour. These bonuses are either "premium" bonuses or "efficiency" bonuses, or both. They are more fully dealt with later on.

Profit-Sharing Schemes

Profit-Sharing Schemes are also a method of rewarding labour. Under these schemes, a certain portion of the profits is set aside half-yearly or yearly, according to the times when the final accounts of the trading are prepared.

The employers' object is to induce the employees to take a greater interest in the business, to help to eliminate "slacking" and waste of material, to retain the services of good and tried employees by giving them a holding in the shares of the concern.

The employees' objection to the schemes are that the bonus is too small; that the payments

are too far apart ; that trading results are not always directly dependent on workers' efforts, but are subject to many outside influences ; that bad management may be responsible for low profits ; and a feeling that the employers gain considerably more from the increased efforts of the workers than they give back in bonus.

Added to these is the workers' dislike to be bothered with shares, and a strong natural preference for hard cash. In some cases, in order to remove suspicion, the amount available for employees is certified by professional accountants, and their certificate is open to the inspection of the employees. In some cases, too, a part of the bonus is credited to a Provident Fund, to be used solely for the benefit of the employees.

Output Bonus

In some firms there is an *Output Bonus*. The work done is classified and totalled, and then reduced to terms of weight, or measurement, or volume, and recorded in points. A weekly standard output is agreed upon with the employees' representative or committee. If actual output exceeds standard output, bonus at the same rate of increase is paid to all employees.

Criticism of Bonus and Profit-Sharing Schemes

In the *Output Bonus* and *Profit-Sharing Schemes*, *group* results are used to determine the *individual* payments. The argument against this is that individual rewards should be the result of individual effort, so that each one personally may be induced to do his best. The counter-argument is that, in many cases, it is not the individual skill but the *group* organization which has enabled the increased output to be achieved.

Object of Production Bonus

A *Production Bonus*, so called to distinguish it from the ordinary profit-sharing bonus, is an extra payment to a workman to induce him to make increased efforts, so that production may be accelerated and the cost of goods thereby cheapened. It is also called a "premium" wage bonus, because the worker gets his reward, or premium, in the form of so much extra wages, the premium varying according to the amount of time saved.

A committee of employers and employees fixes the standard rates of pay per hour, and also determines the standard time to be allowed for completion of various kinds of work. The workman is paid at a standard rate per hour, and a standard time is allowed for production of the article. If the worker occupies the full standard time allowed, he earns only the standard rate of pay. By accelerating the work, he can earn a much higher rate per hour ; it is, therefore, to his advantage to do so. Neither employer nor employee can lose by the introduction of the bonus method, the fivefold object of which is—

1. To increase production.
2. To increase individual wages, and thereby encourage each worker to take a more active interest in his work.
3. To reduce actual wages of production per article.
4. To reduce works oncost per article.
5. Through increased and cheapened production to enable the manufactured article to compete in markets which would otherwise be closed.

The desire of the workman is to get as much as possible for himself ; and the desire of the employer is to keep the cost of production as low as possible. The premium-bonus system is an attempt to reconcile these apparently clashing aims, and to show both employer and employee that their interests are not antagonistic, but very closely interwoven ; to show the employer how, by paying high wages, he can cheapen production, and to prove to him that a high wage per day is not inconsistent with a small cost per job ; to show the employee that his increased wages will give a reduced cost of production, and thus remove from the employer the temptation to "cut" rates ; to prove to the employee that, though quality comes first and quantity second, yet it is possible to produce both at the same time.

Weir, Halsey, and Rowan Systems

There are various systems. The Weir method gives the worker one-third of the value of the standard time saved, and the Halsey method one-half. The Rowan method gives the worker a percentage increase of wages equal to the percentage saving of standard time.

These three principal systems are all illustrated on the next page.

"HALSEY" METHOD

Bonus = One-third of the Value of the Standard Time Saved
 (Standard Time : 100 hours. Standard Rate : 2s. per hour. Standard Cost : £10)

Case	Actual Time Taken	TIME SAVED ON STANDARD TIME			WORKMAN'S EARNINGS												COST OF JOB								
		Hours	Value			Standard Wages			Bonus			Total			Rate per Hour			Standard			Actual			Amount Saved	
1	75 hours	25	£	s	d.	£	s	d.	£	s	d.	£	s	d.	s.	d.	£	s	d.	£	s	d.	£	s	d.
2	65 "	35	2	10	—	7	10	—	1	16	8	2	2	2	2	2	10	—	8	6	13	4	2	13	4
3	50 "	50	5	—	—	5	—	—	1	13	4	2	7	13	4	2	10	—	7	13	4	1	2	6	8

Here, the employer* derives twice as much benefit from accelerated production as does the employee.

"WEIR" METHOD

Bonus = One-half of the Value of the Standard Time Saved
 (Standard Time : 100 hours. Standard Rate : 2s. per hour. Standard Cost : £10)

Case	Actual Time Taken	TIME SAVED ON STANDARD TIME			WORKMAN'S EARNINGS								COST OF JOB												
		Hours	Value			Standard Wages			Bonus			Total		Rate per Hour			Standard			Actual			Amount Saved		
1	75 hours	25	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
2	65 "	35	2	10	—	7	10	—	1	15	5	8	15	5	2	4	10	8	15	1	1	15	1	5	—
3	50 "	50	5	—	—	5	—	—	2	10	—	7	10	—	3	—	10	7	10	—	2	—	10	—	—

Here, the benefit accruing from quicker production is shared equally by the employer and employee.

"ROWAN" METHOD

Bonus = a Percentage Increase on Standard Wages equal to Percentage of Standard Time Saved
 (Standard Time : 100 hours. Standard Rate : 2s. per hour. Standard Cost : £10)

Case	Actual Time Taken	TIME SAVED ON STANDARD TIME		WORKMAN'S EARNINGS								COST OF JOB					
		Hours	Per cent	Standard Wages		Bonus		Total		Rate per Hour		Standard		Actual		Amount Saved	
1	75 hours	25	25%	£	s	d.	£	s	d.	s.	d.	£	s	d.	£	s	d.
2	65 "	35	35%	7	10	—	2	17	6	2	6	10	—	9	7	12	6
3	50 "	50	50%	5	—	—	2	7	—	3	—	10	—	7	—	3	—

Here, the employee gets the lion's share of the benefit resulting from accelerated production, except in the last instance, where the employer and employee share it equally.

Objections to Bonus Systems

An employers' objection is that the bonus often leads to hurried and inferior work. The remedy for this lies in the provision of an Inspection Department, and the making of a rule that all work done must be viewed and passed by this department before payment will be made.

An employees' objection to the bonus method is that, if by means of the bonus a workman is stimulated to do the work of two men, one man will be unemployed. The same argument is urged against piece-work rates. Economically, however, such argument is unsound. Demand grows with every lowering of price; and when productivity is increased, everyone is better off, not worse.

Another objection is that the bonus method may be used to ascertain maximum production and minimum times, in order to fix lower piece-rates. The "cutting" of rates by the employer has already been referred to; but when the employer finds that higher wages lead to increased and cheapened production, the temptation should be very far, if not altogether, removed.

It has been urged against these bonus systems that a man might earn many times his normal rate, and that the employer would have no alternative but to "cut" rates if, to give an example, he found his workmen being paid at the rate of £1 per hour. Such wages, however, would only be possible if the standard times for production had been absurdly over-estimated; and since such times are fixed by agreement with the employer, assisted by a skilled rate-fixer, the possibility seems exceedingly remote.

Under the Rowan system, which seems to be as near perfection as it is humanly possible for any system to be, a worker could never earn quite double his ordinary rate.

In the case of overtime, the general practice seems to be to calculate the premium on the ordinary wages for the actual time taken, not on the overtime time-and-a-half wages, though there may be exceptions.

Efficiency Bonuses

"*Efficiency*" Bonuses have also been introduced. Under these systems, the minimum time in which a skilled workman can do a job is fixed as the standard, and extra wages are offered for attaining the standard. One system

offers the worker a premium of 40 per cent on the day's wages, if the standard is attained; and if it is exceeded, then the wage given is piece rate plus 40 per cent. Another plan gives the worker a graduated bonus, ranging from 5 per cent extra wages, for 65 per cent efficiency, to 40 per cent extra wages for 100 per cent efficiency.

All these bonus systems, however, depend for their excellence or merit on the accuracy and skill with which the piece rates are fixed in the first instance. Subsequent rate-cutting arouses suspicions, which are difficult to allay; and the confidence of the employee in the employer, once lost, is not easy to restore.

Time Recording

Since the question of time enters so largely into the payment of wages, it is not a matter for wonder that manufacturers pay increasing attention to its economy.

Punctuality is one of the greatest essentials of a well-organized business. The loss of a few minutes by one man might mean very little, but when, as in the case of a large factory, multiplied by hundreds and thousands, would, in the aggregate, amount to the loss of many hours, and thus mean not only a decrease of weekly output but a serious diminution of annual production.

Irregular attendance, and laxity of discipline, as regards time-keeping and time-recording, are sources of economic waste, which are often fraught with serious consequences in these days of commercial rivalry with its consequent severe price-cutting and keen competition for markets.

Where time is recorded by a clerk timekeeper, there is always the possibility of inaccuracy and even falsification of record. Automatic time-recording does away with such possibility.

Mechanical time-control by the use of time-recording machines is rapidly coming into favour, because of the simplicity of its operation and its low operative cost.

The natural prejudice of the workers to such machines is gradually passing away, because they are beginning to realize that such machines act in their own interests, and ensure strict justice between themselves and their employer. They protect them on the one hand from such human-timekeepers' failings as favouritism of some and animosity against others; and, on the other hand, ensure, without any fear of

dispute, an accurate and permanent record of their own faithful and efficient service.

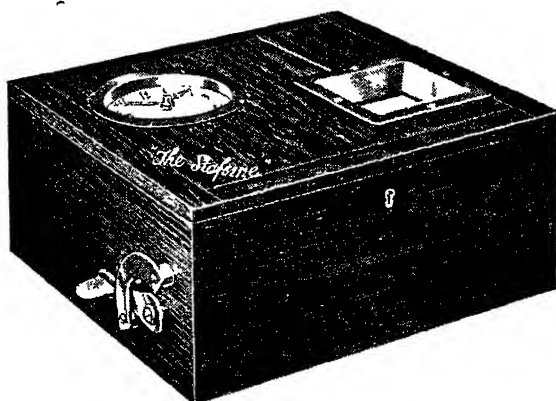
Time recorders are to be found not only in the big factories and large industrial undertakings, but also in the businesses of smaller employers, machines having been invented to meet their special daily requirements.

Time recorders are of three kinds: Tape machines, Sheet machines, and Card machines.

Signature and Key Time Recorders

Tape machines comprise both Key and Signature machines. In this kind of recorder a paper tape passes over engraved wheels. By clock movement, a hammer presses the wheels close to the paper, and stamps on it the day, hour, and definite minute of time.

In the case of the Key Recorder, an illus-



BLICK "STAFSINE" SIGNATURE TIME RECORDER

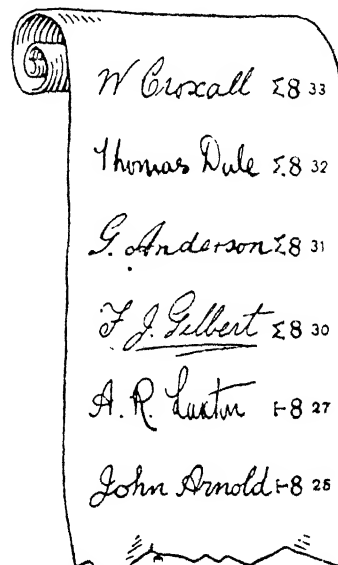
tration of which appears on page 240, each employee is supplied with a key on which is engraved his official staff number. This key the employee inserts in a slot in the recorder, and gives it a half-turn. By this means the machine automatically prints the employee's number and, alongside of it, the time of his arrival or departure.

With the Signature Recorder, the employee turns a handle, and by this means registers on the paper tape the time of his arriving or departing. He then writes his name in the slot against the time so registered. These two machines are very useful for clerical staffs, foremen, departments, stores, and any staff paid a weekly salary, where all that is required is just merely a record of time of commencing work and of time of finishing work. The portion of the paper tape showing the "late" arrivals is usually

torn off and filed for reference, the other part being destroyed.

Sheet Time Recorder

A dial or sheet time recorder consists of a revolving drum on which is fixed the time sheet. The numbers referring to the members of the staff (up to a maximum of 150) are printed down the side of the sheet, which is then placed on the drum in the recorder. At the side of the machine is a large ring containing numbered holes. The



SPECIMEN OF RECORD

lever which revolves the drum has a peg or pointer at the end of it.

An illustration of the "Dey" Register is shown on page 240.

The employee rotates the lever to the hole bearing his number, and then inserts this peg. This operation causes the machine to print the time in the correct space against his name.

The time sheets are printed for either daily or weekly periods. In the latter case, they can be had with extra columns for filling in the total hours worked, the rate per hour, wages due, and other particulars, thus converting the sheet into a weekly Pay-Roll. Such loose-leaf sheets can afterwards be placed in a binder to form an actual Wages Book. By means of an attachment, the machine can be made to print in two colours, ordinary time being shown in *blue*, and irregular time, late time, and overtime being shown in

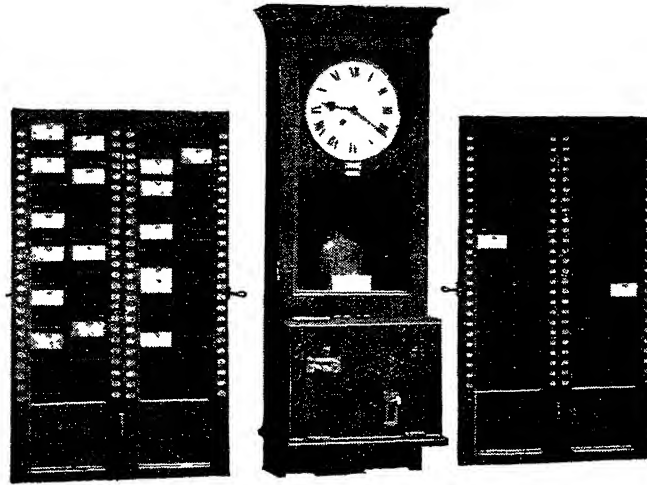
red. This greatly assists the pay clerk in calculating the wages payable.

Card Time Recorder

The Card Time Recorder consists of a machine in which the employee has to place a card in the slot and then operate a lever, by means of which the day, hour, and definite minute of time are recorded on his card. The employee is given a fresh card every week. This card contains his name, his clock number, and rate of pay, thus making it a combined time and wages card.

When the workman leaves, he goes through the reverse process. He takes his card from the slot in the "IN" rack, and places it in the card-sheath of the recorder. He then depresses the lever, thereby registering on his card the time of his leaving work, after which he places his card in its numbered slot in the "OUT" rack. During working hours these racks can be folded and locked until required for use again.

In a large works or factory, where there are several shops or departments or sections, a Recorder is placed at the entrance to or just inside each, so as to be near the men's work.



GLEDHILL-BROOK CARD TIME RECORDER

One well-known type of card recorder is the Gledhill-Brook Time Recorder shown in the illustration above.

The Recorder is placed just inside the entrance to the works. On either side of it are two large Card Racks for holding the Time Cards in numerical order. One rack is labelled "OUT," and the other is labelled "IN."

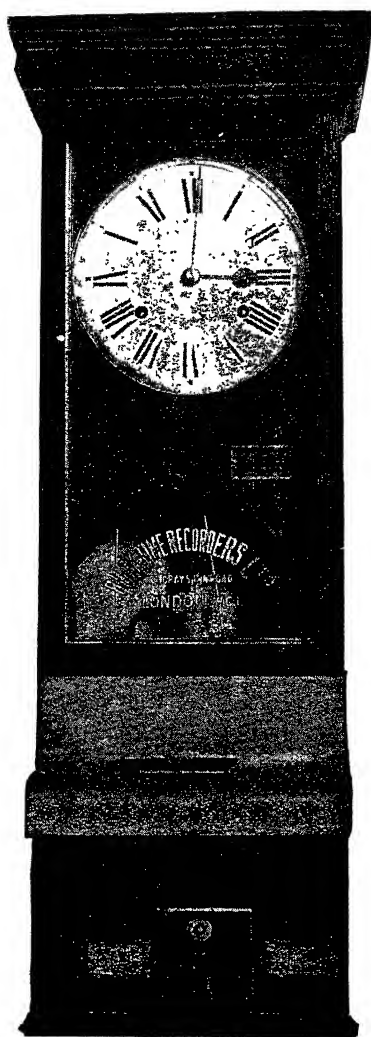
When the employee enters, he takes his card from a numbered slot in the "OUT" rack, and places it in the card-sheath of the recorder. He then depresses a lever, and this action registers on his card the day, hour, and minute of his arrival. After this he takes his card and deposits it in the slot opposite his number in the "IN" rack.

The manager or foreman can thus see at a glance the numbers of the men who are "OUT" or absent.

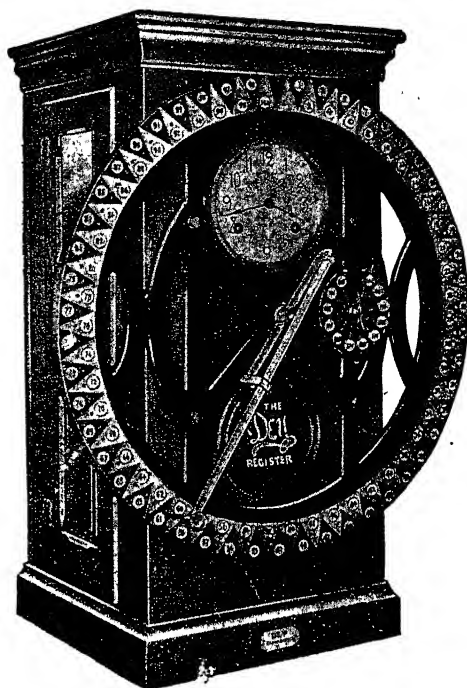
This saves a lot of time as compared with the system of recording time only at the main entrance-gate, to and from which all are compelled to journey every time a record is made.

This system enforces strict discipline, and does away with any possibility of favourites being allowed to slip through late, and yet mark their records as if they had arrived at the correct time.

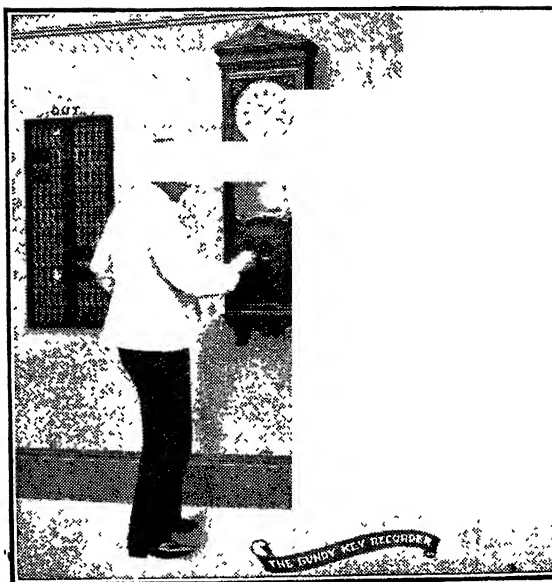
On some recorders, the times are printed in fixed spaces across the card, a shift lever being used to move the card sheath or type motor, and permitting four registrations in 12 hours. By means of a clock-work hoist, the bottom of the card sheath is raised a short distance every 12 hours; this permits eight registrations every day in the week. At the end of the week, the hoist drops to its original position ready for the next week.



BLICK CARD TIME RECORDER



THE "DEY" REGISTER



THE "BUNDY" KEY TIME RECORDER

Cards may be ruled for days and half-days. The time clerk can check the cards daily whenever convenient, thus leaving only a minimum of work for pay day. If it is necessary to make

ment, one colour for recording ordinary time, and another colour for late time and overtime. This is of great service to the pay clerks when calculating the wages payable.

In the previous column is an illustration of a time card, with stampings for the various days, and showing the total hours for the week.

An upright letter at the side indicates *a.m.* time, and a horizontal letter at the side denotes *p.m.* time. The card is also used as a wages card, showing the gross wages earned, and also net wages payable after making the necessary

No. 121.....

Week ending 17th March 1928

Name J. Johnson.....

THE GLEDHILL-BROOK TIME RECORDERS, LTD., HUDDERSFIELD. ② Form 821 S.

Only Clock Stampings will be recognised.

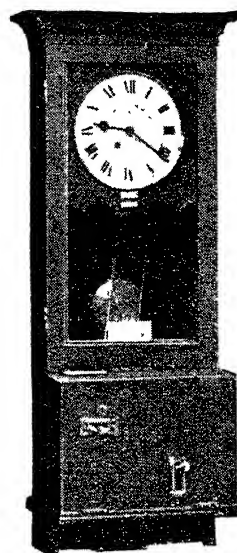
DAY	IN	OUT	IN	OUT	Ord Time	Over Time
A.M. SA	7 55 SA	12 00 SA			4	
P.M. SA						
A.M. SUN						
P.M. SUN						
A.M. M	7 55 M	12 30 M			4 1/2	
P.M. M	1 30 M	5 30 M			4	
A.M. TU	7 55 Tu	12 30 Tu			4 1/2	
P.M. TU	1 30 Tu	5 30 Tu			4	
A.M. W	7 55 W	12 30 W			4 1/2	
P.M. W	1 30 W	5 30 W			4	
A.M. TH	7 55 TH	12 30 TH			4 1/2	
P.M. TH	1 30 TH	5 30 TH			4	
A.M. F	7 55 F	12 30 F			4 1/2	
P.M. F	1 30 F	5 30 F			4	

	Hours	Rate	Amount
Wages for Week.....	46 1/2	2/-	4 13 -
Overtime			
Bonus			
TOTAL			4 13 -
Deduct Health Insurance			1 4 -
NETT WAGES TO PAY £			4 11 8

CARD ILLUSTRATION

up the pay quickly, the time cards can be distributed amongst a number of clerks for computation of the wages earned.

Some recorders have a two-colour attach-



GLEDHILL-BROOK "CLIPPER" CARD TIME RECORDER

deductions for health and pensions insurance, and unemployment insurance.

The latest model, the "Clipper" Recorder, shown above, does away altogether with the shift lever for moving from one column to the other. The clock movement automatically moves the card sheath every 24 hours. In the illustration on the next page, all Saturday's time is grouped together in column 1, all Monday's time in column 2, all Tuesday's time in column 1, and so on.

Not only so, but the recorder actuates a "clipper" which, at each registration, cuts off the side of the card a piece equal to the depth of the stamping. By this means the card drops a little lower into the machine at each stamping. The registrations are thus in regular order, whether in the first column or the second column,

and whatever interval elapses between consecutive stampings; while the number of

move, no special meal hour setting, no over-stamping possible, and no false recording. It requires no attention; the timekeeper has merely to wind the clock once a week.

The Pay Roll of a Large Factory

The information as to the exact number of hours, including overtime, worked, obtained by means of the time recorder, is of great use in the calculation of the wages.

The compilation of the Pay Roll is a very important part of the work of the counting-house or office. It must be listed, calculated, and added with extreme care, in order to ensure absolute accuracy.

In large firms, it represents a considerable part of the firm's expenditure; and mistakes might prove expensive to the firm, and cause distrust among the employees. Such mistakes might be difficult to trace, and perhaps still more difficult to rectify. Yet, in some very large firms, the hand-written pay roll, mentally calculated and added, is still to be found.

To make out factory Wages Sheets even on the typewriter takes a considerable time, and the sheets need to be very carefully checked. The addressing machine will, however, perform the work both quickly and accurately. A wages sheet may contain from 60 to 100 names, and include columns for clock number, occupation, total hours, rate per hour, overtime, total wages, deductions for health and pensions insurance, deductions for unemployment insurance, and net wages.

For writing up the pay roll, the addressing machine is fitted with a special attachment called a "Lister." This attachment is easily put on or taken off. A shield is used to cover up all the plate or stencil except the name and number of the employee.

After the lister has been detached, the same plates or stencils are used again to print the pay envelopes. The wages sheets are then sent to the wages clerks in order to have the necessary particulars entered on them. Where the names of the staff run into hundreds and thousands, this practice ensures speed and accuracy, and also prevents fraud; for no other names can appear except those filed at the head office.

Where the factory or works employs a very large number of persons, the pay roll will usually be drawn in departments, or shops, or other convenient sections.

The pay roll is frequently made up to and including Thursday, and wages are often paid

No. 12	Name E Lunn		Week ending ██████████																															
	1	2	Ord Time	Over Time																														
7 55 SA 14 FB 12 00 SA 14 FB		7 55 M 16 FB 12 30 3 16 FB 1 30 3 16 FB 5 30 3 16 FB	4 05																															
7 55 Tu 17 FB 12 30 17 FB 1 30 17 FB 5 30 17 FB		7 55 W 18 FB 12 30 18 FB 1 30 18 FB 5 30 18 FB	8 35																															
7 55 Th 19 FB 12 30 19 FB 1 30 19 FB 5 30 19 FB		7 55 F 20 FB 12 30 20 FB 1 30 20 FB 5 30 20 FB	8 35																															
Form 53A			Total Hours 47																															
<table border="1"> <thead> <tr> <th></th> <th>Hrs</th> <th>Mins</th> <th>Rate</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Ordinary Time</td> <td>47</td> <td>-</td> <td>1/10</td> <td>4 6 2</td> </tr> <tr> <td>Overtime</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Gross Wages</td> <td></td> <td></td> <td></td> <td>4 6 2</td> </tr> <tr> <td>Deductions H. 9 U 7 Sub. 3</td> <td></td> <td></td> <td></td> <td>1 7</td> </tr> <tr> <td>A.M. Upright Letter P.M. Horizontal Letter</td> <td colspan="3">Total £</td> <td>4 4 7</td> </tr> </tbody> </table>						Hrs	Mins	Rate	Amount	Ordinary Time	47	-	1/10	4 6 2	Overtime					Gross Wages				4 6 2	Deductions H. 9 U 7 Sub. 3				1 7	A.M. Upright Letter P.M. Horizontal Letter	Total £			4 4 7
	Hrs	Mins	Rate	Amount																														
Ordinary Time	47	-	1/10	4 6 2																														
Overtime																																		
Gross Wages				4 6 2																														
Deductions H. 9 U 7 Sub. 3				1 7																														
A.M. Upright Letter P.M. Horizontal Letter	Total £			4 4 7																														

"CLIPPER" RECORD SHOWING CLIPPED EDGE

stampings itself is limited only by the length of the card.

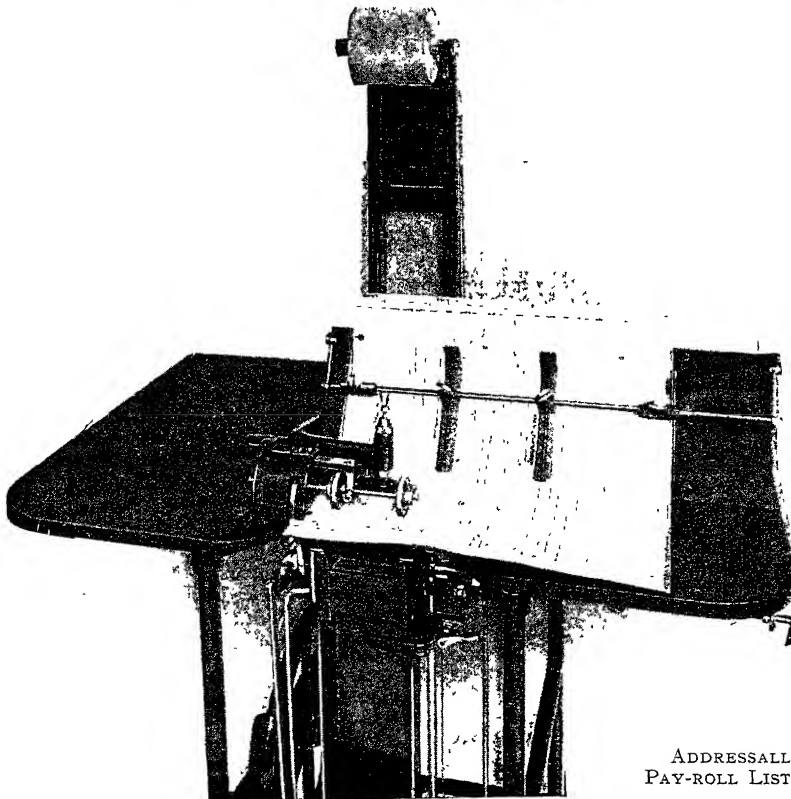
In this Recorder there is no shift lever to

No. 169 4059		Name J. Roberts Week ending Aug 20 1926	
ON	OFF	TIME	
SA 730	SA 1 00	5½	
M 730	M 5 30	9	
M 130			
TU 731	TU 5 30	9	
TU 130			
W 759			
W 130	W 5 31	8½	
Total Hours 32			

No. 169 4150		Name J. Roberts Week ending Aug 20 1926	
ON	OFF	TIME	
TH 7 30			
TH 1 30	TH 5 32	9	
FR 7 30			
FR 1 30	FR 7 00	10½	
Total Hours 19½			

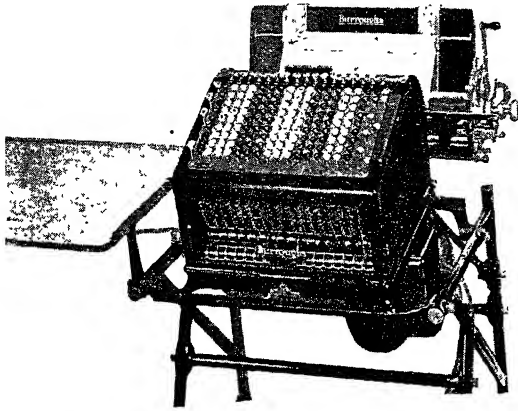
Workman's Name J. Roberts		Clock No. 169	
WEEKLY TIME SUMMARY.			
Job			
✓ 4059	32	1	14 4
✓ 4150	19½	1	9
Total Hours 51½ 2 18 1			
Overtime			
Extras			
Deductions N. Y.	2	18	1
	1	4	
Nett Wages	£ 2	16	9

BLICK CARD RECORDS



ADDRESSALL
PAY-ROLL LISTER

at closing time on Friday evening. In order to guard against fraud, the clerks who pay the wages should not be the same clerks that record



BURROUGHS DUPLEX PAY-ROLL MACHINE

the time or make up the wages payable. The pay roll, when completed, is therefore passed on to the cashier to actually pay the wages of each man.

Although some firms make it a hard and fast rule never to allow any advance on account of

wages, yet other firms are more indulgent, and permit what are called "subs." Generally speaking, the "sub" has to be authorized by the foreman or some responsible official before the petty cashier will pay it. The amount is deducted from the man's wages at the end of the week; and the pay roll contains a column, headed "Subs," in which the deduction is recorded.

The illustration on page 243 shows an Addressall, Model D-1, with Sheet Holder and Lister, for listing pay roll, dividend sheets, etc. A list of names can be run off at the rate of 65 a minute, the sheet being automatically fed and spacing the right distance between each name. The names are imprinted in filing order—the first stencil as filed prints first on the sheets, etc., and they are refiled in the same order.

The Burroughs Duplex Analysis Machine (Style 2706) is also used for compiling the pay roll, for cost records, and for statistical work. It is really two machines in one—two accumulating mechanisms operated with a single keyboard. It will list two separate columns of figures, such as Selling Price and Cost Price, in a single run, add them simultaneously and separately, and also make a grand total of both

PAY ROLL									
For week ending 19.. ..						Sheet No.....			
Clock No.	State Insurance Employer		Gross Wage	Deductions			State Insurance Workmen		Net Wage
	Health	Unemp't.		L. W. F.	Hospital	Fines	Health	Unemp't.	
581	9	8	3 6 7 *	1	2		9	7	3 5 0*
582	9	8	1 19 11	1	1		9	7	1 18 5*
583	9	8	3 6 4	1	2		9	7	3 4 9*
584	9	8	3 13 0	1	2		9	7	3 11 5*
585	9	8	3 11 4	1	2		9	7	3 9 9*
587	9	8	3 14 1	1	2		9	7	3 12 6*
588	9	8	1 15 8	1	1		9	7	1 14 2*
861	9	8	3 6 1	1	2		9	7	3 4 6*
862	9	8	3 6 4	1	2		9	7	3 4 9*
	81	72	27 19 4*	9	16		81	63	27 5 3*

without relisting. Or, if desired, several columns of figures, such as divisions of a pay roll, may be added and listed in a single run, and the total of each group or column obtained, and also a grand total of all the columns without any relisting. On an ordinary adding machine, it would require two runs to obtain such information, with, of course, additional time and labour, and the possibility of mistake in picking up the totals. Ciphers are printed automatically. Thus, to write £100 os. od., all that is required is to depress the "1" key in a certain column. This effects a considerable saving of time, especially where ciphers are numerous. Special keys are provided for correction of figures, for multiplication, and for non-addition of any particular column or columns. By means of a wide carriage, it is possible for listing to be done either horizontally or vertically, giving the usual totals and grand total.

In compiling the Pay Roll, the particulars for each employee are listed one line at a time. The totalling of the columns for Employer's Contributions and for Gross Wages, and the totalling of the columns for Employees' Contributions and for Net Wages, are performed in one operation.

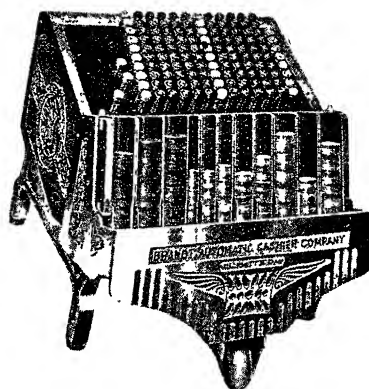
A specimen of the pay roll is on page 244.

Wages-paying Machines

After the pay roll has been compiled a cheque must be drawn for the net amount payable, and arrangements made for the coins received to be divided up into the amounts to be paid to each employee.

The process of paying wages on a large scale is a time-taking operation which is simply all expense. Facilities for doing their work quickly and accurately are given to other office assistants, in the shape of the typewriter and the calculating machine; and it is but fair that mechanical appliances should be at the service of the wages paymaster, to speed up and ensure the accuracy of his part of the work. A machine that can guarantee accurate payment, and also considerably reduce the time usually taken, must therefore be a profitable investment for the business man who has to pay wages on any but a very small scale. One of the best-known machines is the Brandt Automatic Cashier, shown in the illustration, which places in the hands of the modern wages-payer a means of counting coins correctly in the absolute minimum of time. By simply pressing just one key, any amount from 1d. to 9s. 11d. is delivered at

once. Some firms employ two, three, and even several wages clerks. Some firms pay wages in envelopes, others in tins, some in racks, and some by direct payment without any pay receptacle. The envelope certainly has the advantage of keeping each employee's wage secret, because it conceals it from the observation of his fellow-workers. But, whatever method is used, the Automatic Cashier will fit in with it, and will speed up the process, for by the use of this machine the wages paymaster is relieved of the troublesome task of



BRANDT WAGES-PAYING MACHINE

collecting, counting, and recounting coins, and of the anxious fear of error arising therefrom.

Actual Process

The actual process of paying wages is usually fourfold—

1. Ascertaining from the pay roll the exact amount of bank notes, silver coins, and copper coins required for the separate payment of each amount, and totalling them. Thus, for payment of an amount of £3 14s. 11d., the items would be: three £1 notes, one 10s. note, 4s. 6d. in silver (or, if sorted silver is required: one half-crown and one florin), and 5d. in coppers; and so on for the other amounts.

2. Cashing the wages cheque, i.e. drawing the amount from the bank, and checking the notes and the coinage money.

3. Putting up each employee's wages, and inserting in pay receptacle, if any.

4. Paying out to each employee the wages so put up.

Therefore, under 1, before the wages cheque can be cashed it is necessary to know the number and amount of the different coins required, so

that the bank can send the right number of notes, "mixed" or "sorted" silver, and copper. As the wages cheque will probably not vary very much from week to week it will not be necessary to make this analysis every week, but an average analysis may be used. If required, an average analysis plan, based on the standard machine, can be obtained, adapted to the requirements of the individual firm. If this plan is used, instead of merely "mixed" silver, "sorted" silver will be obtained from the bank, i.e. so many half-crowns, so many florins, and so on. Sorted silver is easier and quicker to count than mixed silver. It is far easier to count fifty half-crowns, forty florins, etc., than it is to count a mixed collection of shillings, half-crowns, sixpences, and florins. And if the sorted silver includes, as it often does, a good proportion of large coins, there is the added economy of having to count fewer coins. The Automatic Cashier pays coins on a single key depression, and always pays the same coins. On striking the key marked 1d., it gives 1d. as a single coin. On striking the key marked 9/11 it gives 9s. 11d. always made up in the same way, the least number of coins, i.e. 3 half-crowns, 1 florin, and 5 pennies. The paymaster thus has the advantage of knowing exactly what coins are placed in the pay receptacle.

The £1 and 10s. notes are taken, as required, from their respective wads or bundles. The Automatic Cashier is needed only for the fractional parts of 10s. The coinage money, after being checked, is loaded direct into the tray of the Automatic Cashier, which holds approximately £45. If a pay roll is such that more than this amount in silver is needed, the surplus money which the machine cannot take is placed in a separate coin-storage tray, and

used to replenish the machine when necessary. One machine and one tray will hold sufficient for a pay roll of 400; for pay rolls of more than 400, additional storage trays can be provided.

By the old method of paying wages, one clerk picks and counts the required number of £1 and 10s. notes, collects and counts the required amount of coinage, places the lot on the employee's envelope, and then passes it to the second clerk. The second clerk checks the notes and the coinage, verifies the total amount with the pay roll, and then puts both notes and coins into the envelope or pay receptacle. By the Brandt method, the notes are picked and checked as before, but the coinage amount is shot into the envelope or pay receptacle by simply depressing the appropriate key on the machine. The labour of selecting and twice checking the coinage amount is dispensed with entirely.

The simplicity of the machine is due to its press-only-one-key feature. The keys are arranged in rows of twelve in order to facilitate rapid selection and easy operation. All keys paying even shillings or sixpences are punctuated with white colours, the other keys being black. All amounts over sixpence are to the right of the centre white column; the amounts under sixpence being to the left of the same column. The steel brains and fingers of the machine do all the computing, selecting, and counting, and pay the coins directly from the machine into the pay receptacle. If any of the coin columns is about to become empty, the machine locks automatically. This is the signal for the operator to reload additional coins from his storage tray, a proceeding which occupies but a few seconds. The machine not only serves with absolute accuracy, but is considered by the makers to be "fool-proof."

CHAPTER XIX

STOCK-KEEPING AND STOCK-TAKING

A CERTAIN Quaker manufacturer of the good old days never missed Sunday Morning Meeting, and, example being better than precept, his family, his apprentices, and the domestic servants were equally zealous on the morning of the first day of the week.

Yet though his business was large, it did not thrive as it should, till one Sunday after breakfast the good man called to visit a sick neighbour and stayed too long on his work of consolation to be early at Meeting.

However, he did his best, and as his quickest path was through his own home and the factory beyond it, he used his latch keys and . . .

The sound of a rumbling truck, drawn over stones, fell on his astonished ears. It seemed strange to him, for the works and the house were always empty at this hour. Could one of his apprentices have overlooked an important task?

And then he came upon a neighbour, a dweller in one of the few remaining adjacent houses that the factory had not already eaten up. The industrious Sunday toiler was trundling a truck on which were piled raw materials and manufactured goods into his own premises, through a doorway in a parti-wall, that was supposed to be not only unopened but unopenable.

Thus was the mystery of three years' distressing trading results explained.

The goods were trundled back and the neighbour was reproved and forgiven, for the worthy manufacturer was too elated to have solved his mystery to feel vindictive.

Nevertheless he introduced a system of checking his goods that no longer allowed such happening to go undetected.

It is easy for us to criticize the free-and-easy methods of the past, and declare "that couldn't happen nowadays." It is to be feared, upon the contrary, that in a good many cases, the absence of effective check is just as great to-day, and that there are many firms in which leakages easily pass undetected.

The object of keeping records of stock is not only to defeat the dishonest person; for it is essential in many trades that there should be records immediately available for a number of purposes.

But dishonesty is certainly one of the factors

with which the trader must reckon, and the more precious the goods he holds in proportion to their bulk, the greater his need for vigilance.

Stock Book Method

Where the stocks kept are both large and valuable, it is of the utmost importance that a strict record be kept of the goods and materials purchased and sold, or consumed, in order to have a check upon waste and to facilitate the detection of leakage.

Alternative Method

Many traders, however, seem to be content with lock-up store rooms, under the control of a reliable and trustworthy storekeeper, without any actual book record. Goods are obtained from the storekeeper by means of duly signed official requisition slips, which are filed for reference if necessary. Periodical investigations are made here and there, and this form of "control" is supplemented by a frequent comparison of totals of Stock, Purchases, and Sales for different periods.

Ruling of Stock Books

The rulings of the various Stock Books of those establishments which have a proper system of control of stock will naturally be widely different, being adapted or suited to the particular needs of each individual business.

Value of Stock Books

The Stock Books will, usually, form no part of the double entry, but will be purely statistical books or books of record.

They will, however, form a very useful supplement to the books of account; for whereas the Stock Account in the General or Impersonal Ledger will give merely the total value of the stock on hand, the Stock Books or Ledger will furnish the necessary details as to the composition of that total.

Distinction Between "Stocks" and "Stores"

"Stocks" refers to manufactured goods, commodities ready for sale. "Stores" refers

In the case of hotels, although provisions of all kinds are bought in quantities, no stocks of any importance are kept, as such goods are of a perishable nature. It is true that small quantities of such stores as tea, coffee, sugar, jams, jellies, sauces, and other condiments, might be in hand ; but these would be in charge of the still-room maid, who would issue them only against properly signed official requisitions, which she would then place on a file for the subsequent use of the counting house.

Such accounts, however, will be very valuable for comparison of totals for different periods.

Cellar Stock Book

The principal Stock Book will, therefore, relate to wines, spirits, liqueurs, and minerals. This book is commonly called the "Cellar Stock Book," from the place where such stores are kept. A specimen of this book appears below. Instead of lengthy names or descriptions, each kind is given a "bin" number, the "bin" being the receptacle in which they are stored; and under this "bin" number all receipts and issues are recorded.

prices being omitted as far as the Cellar Stock Book is concerned.

Receipts are written up from the bought invoices or the delivery notes, the quantity being entered in the "Total" column and then analysed under the respective bin numbers. Supplies are issued daily to the bar, waiters, etc., in return for signed requisitions or checks, which are duly entered up by the store-keeper, and then filed for subsequent office use.

An alternative form of Cellar Stock Book is commonly met with, a specimen of which is shown on page 250. This book is usually kept in quantities only, prices being omitted. The book is specially ruled with a separate column for each day of the month. The beverages, as before, are given a special bin number under which they are subsequently dealt with. A column is provided for purchases, which, possibly one or two a month, will be recorded under their bin numbers.

The issues for each day will also be entered up against their respective bin numbers. The receipts, as per the bought invoices or delivery notes, will be checked by the cellar stockman, who will duly enter them in his Stock Book, and thenceforward become responsible for a similar amount of stock. The cellar storekeeper will issue wines, spirits, and minerals, only in return for the properly signed requisition of the bar-keeper or manager, and for the signed check of a waiter or head waiter.

The procedure varies in different establishments; in some, the waiters obtain their supplies from the bar; in others, both bar-keeper and waiters deal direct with the cellar stockman. The requisitions and checks are entered up by the store-keeper against their bin numbers, and

[illegible]

BOOK-KEEPING AND OFFICE WORK

CELLAR STOCK BOOK
ISSUES

Date	Requisition No.	To Whom Issued	Total Bottles	Bin Numbers																			
				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20

BOTTLED WINES STOCK BOOK OR CELLAR STOCK BOOK

For the Month of19..

Stock at First of Month	Bottles Received		Bin No.	Bottles Issued																															Total for Month	Stock end of Month	Remarks	
	No.	Date		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31				

then filed for ultimate transfer to the counting house. The amount taken out of the cellar on each day can thus be checked by the counting house with the requisitions and checks, and verified by the charges to the bar and visitors' accounts.

In the case of whole bottles and half bottles of the same potable, two separate lines are used; one line records the issues of the whole bottles; and the succeeding line records the issues of the half bottles, both, of course, against their respective bin numbers. The balance at the end of the month should agree with the actual stock in the various bins, and such balance is usually verified by a duly authorized official. The "Remarks" column at the end of the ruling is used to explain any shortage of stock due to breakage or other causes.

In the financial books, there would be an account for wines, spirits, beers, minerals, and other drinkables, or, in large establishments, a separate account for each. These accounts would deal only with values, not quantities.

At balancing time, the stock value of each

beverage would be written in on the credit side of its appropriate account. Each account would then be balanced, and the difference between the two sides would represent either loss or gain on the sale of such potables, and would be carried to Profit and Loss Account in the usual way. After the accounts had been ruled off, the stock value of each drinkable would be brought down as a debit balance in its account, ready for the new trading period.

Warehouse Stock Books

Turning now to a very different trade, examples are given of books used by a wholesaler dealing in piece goods. All goods received are entered in the Piece Goods Inwards Books, a specimen of which is shown on page 251, particulars being obtained from advice notes or the inwards invoices.

The goods received are carefully measured, and any discrepancy duly noted and reported to the counting house, so that the requisite Debit Note may be sent to the supplier concerned. The goods dispatched to customers are

entered in the Piece Goods Outwards Book (see below), and the packing slips sent to the counting house in order that invoices may be forwarded in due course.

The Piece Goods Stock Ledger is entered up from the two warehouse stock books previously mentioned. A specimen ruling of this Stock Ledger appears on page 252.

To identify each piece of cloth, there are two numbers, a piece number, and also a pattern number. The manufacturer uses two numbers; and the wholesaler could, if he liked, use the same two numbers; but he usually adopts numbers of his own in order that they may run consecutively, which the manufacturer's numbers would not do, inasmuch as he is supplying numerous wholesalers, and not merely this one.

Piece Goods Label

A label is attached to each piece of cloth when it is received. On this is stated the stock piece number, the stock pattern number, and also the length, i.e. the number of yards contained in the piece.

The label also contains a space in which to enter particulars of the various cuttings from time to time, giving dates and order numbers

for reference if necessary. A final column shows the number of yards still remaining in the piece. The length of the remnant at any time is thus easily ascertained. The following is a specimen—

PIECE GOODS LABEL			
Piece Number	4128		
Pattern Number	209		
Length	52 yards.		
Date Cut	Order No.	Length Cut	Length of Remnant
Mar. 28	374	Yards 20	Yards 32
30	386	20	12

A similar sort of thing is done in drapery warehouses with dress materials, linings, calicoes, shirtings, flannel, etc.

WAREHOUSE STOCK BOOK OR PIECE GOODS INWARDS BOOK

Date	From Whom Received	In-voice No.	Description of Goods	Manufacturers' Numbers		Own Stock Numbers		Length In-voiced	Length Received	Short-age	Stock Ledger Folio	Remarks
				Piece	Pattern	Piece	Pattern					
19..												
Mar. 20	Northern Textile Co., Ltd.	196	Scotch Tweed . . .	4,357	794	4,106	215	Yards 52	Yards 52			D/N 38
	Northern Textile Co., Ltd.	196	Scotch Tweed . . .	4,372	794	4,107	215	52	51½			

WAREHOUSE STOCK BOOK OR PIECE GOODS OUTWARDS BOOK

Date	Order No.	To Whom Issued		Description of Goods	Stock Numbers		Length Issued	Stock Ledger Folio	Remarks
		Name	Address		Piece	Pattern			
19..									
Mar. 24	378	Brown & Co.	London . . .	Scotch Tweed . . .	4,106	215	Yards 30		
26	382	Smith & Sons	London . . .	Scotch Tweed . . .	4,106	215	22		
27	391	Rupertis, Ltd.	London . . .	Scotch Tweed . . .	4,107	215	25½		
29	398	Bellert & Co.	London . . .	Scotch Tweed . . .	4,107	215	26		

BOOK-KEEPING AND OFFICE WORK

WAREHOUSE STOCK LEDGER OR PIECE GOODS STOCK LEDGER

Stock Numbers		Receipts					Issues				
Piece	Pattern	Date	In-voice No	From Whom	Stock Book Folio	Length	Date	Order No.	To Whom	Stock Book Folio	Length
4106	215	19.. Mar. 20	196	Northern Textile Co.		Yards 52	19.. Mar. 24 26	378 382	Brown & Co Smith & Sons		Yards 30 22
						— 52					— 52
4107	215	Mar. 20	196	Northern Textile Co.		51½	Mar 27 29	391 398	Ruperts, Ltd. Bellert & Co		25½ 26
						— 51½					— 51½

Cycle Stock Book^a

Another specimen of a warehouse stock book, a Cycle Stock Book, appears below. It will

be noticed that columns are provided so that a detailed description of each machine may be kept.

CYCLE STOCK BOOK

Date of Receipt	Factory No.	Factory Description	Kind of Machine	Height of Frame	Tyres	Rims	If Free Wheel	Brakes	Handle-bars	Saddle
19.. Mar. 15	175,872 175,946	Rambler . Princepts .	Gents . Ladies .	26 in. 24 in.	Lundoppe Clanchear	Plated Coppered	Yes . No .	Rim and Tyre Tyre . .	X Adjustable Double Grip	Brooks . Leaver .

CYCLE STOCK BOOK (continued)

Pedals	Bell	Gear	Gear Case	Cyclometer	Date of Sale	Customer's		Warranty
						Name	Address	
<i>Rubber</i> <i>B. S. A.</i>	<i>Lucas</i> <i>Hammer</i>	<i>Two-speed</i> <i>Two-speed</i>	<i>None</i> <i>Celluloid</i>	<i>Yule</i> <i>None</i>	19.. <i>May 26</i> <i>May 30</i>	<i>Browne, F. T.</i> <i>Fifely, Mrs. G.</i>	<i>778 Rupert Avenue, W. C. 2</i> <i>16 Castle Square, Brinkly</i>	<i>2 years</i> <i>1 year</i>

Stock Books of a Corn Merchant

In contrast to the Tabular Stock Books previously shown, the Stock Ledger of a corn merchant is often in ordinary Ledger form, but contains extra columns on each side in order

to record quantities. A certain number of pages is allotted to each item of stock, the Oats Account, often the largest, occupying a considerable number. The following are examples of some of the accounts such a Stock Ledger will contain—

Dr.					OATS										Cr.			
19..				qr.	bus.	£	s.	d.	19..				qr.	bus.	£	s.	d.	
Jan. 1	To Stock .	.		15	4			19	7	6	Jan. 2	By Lee & Co.	. 41	5	-	7	10	-
2	" F. Smith	.	34	10	-			12	10	-								

Dr.		BARLEY										Cr.			
19..			qr.	bus.	£	s.	d.	19..			qr.	bus.	£	s.	d.
Jan. 1	To Stock .	.	10	4	19	19	—	Jan. 2	By Lee & Co. .	41	4	—	9	2	—
2	„ T. Lamb	.	34	8	15	4	—								

Dr.		MAIZE										Cr.				
19..			qr.	bus.	£	s.	d.	19..			qr.	bus.	£	s.	d.	
Jan. 1	To Stock	.	10	—	16	—	—	Jan. 4	By F. Tubbs	.	41	6	—	11	11	—
2	„ A Coope	.	34	8	12	16	—									

Dr.		BRAN										Cr.				
19..			qr.	bus.	£	s.	d.	19..			qr.	bus.	£	s.	d.	
Jan. 1	To Stock	.	6	—	5	11	—	Jan. 4	By R. Smith	.	41	6	—	6	15	—
4	„ A. Miller	.	34	8	7	8	—									

Dr.		POLLARD										Cr.				
19..			qr.	bus.	£	s.	d.	19..			qr.	bus.	£	s.	d.	
Jan. 1	To Stock	.	2	—	2	2	—	Jan. 5	By A. Steve	.	42	2	—	2	11	—
5	„ G. Timms	.	35	4	4	4	—									

Dr.		HAY										Cr.	
19..			trusses	£	s.	d.	19..			trusses	£	s.	d.
Jan. 1	To Stock	.	20	3	5	—	Jan. 4	By R. Limpe	.	41	10	2	—
4	„ C. Farmer	. 34	36	5	17	—							

Dr.		STRAW										Cr.	
19..			trusses	£	s.	d.	19..			trusses	£	s.	d.
Jan. 1	To Stock	.	20	1	15	—	Jan. 4	By R. Limpe	.	41	10	1	—
4	„ C. Farmer	. 34	36	3	3	—							

Dr.		LINSEED CAKE										Cr.			
19..			tons	cwt.	£	s.	d.	19..			tons	cwt.	£	s.	d.
Jan. 5	To Stem & Co.	.	35	1	8	15	6	Jan. 7	By A. Farmer	.	42	1	10	10	6

Stock Books as Part of Double-Entry System

A Stock Ledger such as the foregoing may, and often does, form part of the double-entry system. Instead of a Stock Account, a Purchases Account, and a Sales Account in the General Ledger, there is in the Stock Ledger a series of Goods Accounts, under the names of the items of stock.

An ordinary Purchases Book is used; the Bought Ledger folios are entered against the creditors' names, and the Stock Ledger folios against the articles purchased.

An ordinary Sales Book is used; the Sales Ledger folios are entered against the customers'

names, and the Stock Ledger folios against the articles sold.

Thus, each item of purchases and sales is posted not only to the Bought and Sales Ledgers, but also to the Stock Ledger. There is, therefore, no need to post the total purchases and sales for the month to Purchases and Sales Accounts in the General Ledger. The balances of the various accounts in the Stock Ledger, after their respective stocks have been credited, will show the gross profits on the different items of stock, and will be transferred to the Profit and Loss Account.

In addition to the above Stock Ledger, a number of memorandum Stock Books is also

kept in the office ; but these books deal only with quantities and not prices. They record each particular purchase, and the various issues made from it, thus enabling the stock in hand of each lot (if any) to be easily ascertained at any time. The following are examples of the entries in the Oats Stock Book—

bought invoices or delivery notes ; and the Stores Outwards Book is compiled from the requisitions sent to the store-keeper. The Stores Ledger is entered up from the Stores Inwards Book and the Stores Outwards Book respectively.

The store-keeper classifies, stores, and records

OATS STOCK BOOK							
F. H. BROWN 10 qr. Black (40 lb.)				A. L. JONATHAN 12 qr. White (40 lb.)			
19..			Qr.	Bus.	19..		Qr. . Bus.
Jan. 4	Reeve & Son		2	4	Jan. 4	R. Stevens	5 -
6	Leaver & Co.		3	-	6	Shop	- 4
7	Shop		-	4	8	Grinding for Horse Corn .	1 4
8	Phillips & Co.		2	4	9	A. H. Brown	3 -
9	Grinding for Mixed Corn .		1	4			
			10	-			

The following are examples of entries in the Hay Stock Book—

all the materials received, after verifying qualities and descriptions with the purchase order,

HAY STOCK BOOK							
L. GREEN 36 Trusses Meadow			L. GREEN 36 Trusses Clover			H. GOODE 18 Trusses Sainfoin	
19..			19..			19..	
Jan. 5	O. Lovell	6	Jan. 4	R. Brown	4	Jan. 4	R. Limpe 6
7	C. Droopell	10	5	N. Lorpern	10	6	C. Greave 6
8	H. Lambe	5	7	R. Neaves	5	7	A. Farmer 6
9	Cut for Chaff	3					
10	Stable	2					18

Stores Inwards Book, Stores Outwards Book, Stores Ledger

The books recording the issue and accounting of stores are usually kept in a factory in connection with a costing system. Rulings of the three books are given on pages 255 and 256. The Stores Inwards Book is written up from the

and checking quantities with the bought invoice, or advice or delivery note.

He issues all materials required for use, in return for properly signed official requisition notes.

He also receives back into stock any surplus material whenever such is returned, giving a

down hard and fast rules, but merely to impart general information concerning the main principles connected with the storage of goods and materials.

Storehouse Records

Each bay, each rack or section of shelving, and each bin or locker has affixed on it—

1. A Label on which appears the description, also the distinctive symbol, or stock number of its contents.

2. A Bin or Locker Card giving the following particulars—

(a) The maximum and minimum quantities required to be maintained of this particular material or store ;

(b) The date and quantity of each receipt and issue of this material or store, and the balance in stock after each receipt or issue.

Bin or Locker Card

On page 258 is a typical specimen of such card.

If the same class of material or article is stored in more than one section or bin, the label affixed to it bears a sub-number or letter by the side of the distinctive symbol, as S(1), S(2), or S(a), S(b), etc.

After each receipt or issue of material or articles, the balance left in stock is entered in the balance column on the Bin or Locker Card. This assists the storekeeper to maintain his stock at the required level, as it enables him to requisition further supplies from the buying department to replenish his dwindling stocks before they fall below the minimum quantity.

The Stores Ledger kept in the office or costing department, and written up from the Stores Inwards Book and the Stores Outwards Book respectively, acts as a check on the Bin or Locker Cards.

Storehouse K.K. or Tally

On page 258 is given another form of record, a K.K. or Tally, also met with at times. The ruled paper sheet is affixed, by means of drawing pins at the four corners, to a board of about the same size (foolscap or quarto) with a small rounded head ; in the centre of the head is a hole by means of which the board may be hung on a nail or hook when not in use.

The receipts being much less numerous than the issues, there is let in at the foot of the tally-board, on the receipts side, a piece of slate, on

which the storeman, after each receipt or issue, chalks up the *new* balance in store. The amount of each material or article in stock at any time can, therefore, be seen at a glance.

Alternative Form of Locker Card

The following is another form of Bin or Locker Card in use in many establishments, the storeman being allowed to make the entries in indelible pencil ; the form itself being of the simplest kind—

BIN OR LOCKER CARD				
Stock Symbol.....S 206.....		Bin.....25.....		
Maximum.....120.....		Minimum.....40.....		
Date	Reference Number	Quantity	In OUT	Present Stock
Mar. 5	457	80	IN OUT	80
Mar. 6	235	10	IN OUT	70
Mar. 8	247	10	IN OUT	60
Mar. 10	254	10	IN OUT	50
Mar. 15	273	10	IN OUT	40
Mar. 16	469	50	IN OUT	90
Mar. 27	314	20	IN OUT	70
Mar. 29	330	10	IN OUT	60
Mar. 30	342	10	IN OUT	50
			IN OUT	
			IN OUT	
			IN OUT	

Stock-taking

As the time for stock-taking approaches, all goods should be grouped and arranged in the

Stock-taking Letter

LONDON,
20th December, 19..

Yours faithfully,
A. TRADER & Co.

Old, obsolete, or damaged stock should be entered on a separate sheet by itself, so that it can be specially dealt with.

Certified Stock Sheets are required in many businesses, and the takers and checkers are required to confirm their work by adding their

[illegible]

initials to the section of the work they performed, so that responsibility for errors may be traced to the right party. The following is a specimen of the printed gumméd label attached to each sheet or section—

Taken by .....	.....
Checked by .....	.....
Prices Checked by .....	.....
Extensions Checked by .....	.....
Additions Checked by .....	.....
Departmental Manager's Signature	
.....

Estimating Value of Stock

In retail businesses, where there is a fixed percentage of profit on sales, an *estimated* stock value can be obtained at the end of each month. The month's purchases are added to the commencing stock, and from the total the sales are deducted, after taking off the said percentage. The balance is the approximate value of the stock on hand. An example is given in Branch Accounts.

Card Stock Record

Where bin or locker cards are in use, showing the stock in hand after each receipt or issue, there is a perpetual inventory or stock record ; and the total value of stock at any time can be ascertained without going through the actual process of stock-taking.

Advantage of Stock-taking

Stock-taking has the great advantage of bringing to the notice of the management any surplus, unsaleable, or damaged stock ; and the more frequently these are reviewed the better for the business, as there is less likelihood of loss arising from such causes.

Valuation of Stock

Not only must stock be correctly taken, it must also be correctly valued, and for two very important reasons. First, in order that the Trading and Profit and Loss Accounts may be completed and balanced. Secondly, to enable the assets side of the Balance Sheet to be completed by the inclusion of stock-in-trade.

It is of the utmost importance, too, that Stock be valued on a correct basis, and that the

basis be the same from year to year. Unless this is done, the final accounts will be very inaccurate and misleading. Inflated values of stock will mean swollen profits ; while under-estimated values will create secret reserves.

Generally speaking, stock should be valued at cost price or market price, whichever is the lower. When market price is higher than cost, there is always the temptation to value it at the enhanced figure. This, however, is taking credit for profit before it is realized, as the profit is not really made until the goods are sold, by which time the market price may have fallen considerably.

"Dead Stock," i.e. stock for which there is hardly any possibility of sale, should be valued at a heavily depreciated price.

"Scrap Material," which is thrown out from time to time, is usually valued at what it can reasonably be expected to fetch.

The following are the recognized bases of valuation—

1. Finished Goods, at cost price of raw material, plus inwards charges, plus manufacturing charges, plus oncost, unless such total cost exceeds selling price. In the latter case, they should be valued at selling price.

2. Partly Manufactured Goods, or Work-in-Progress, at cost price of raw material used, plus inwards charges, plus manufacturing charges to date, plus a percentage of oncost to date, i.e. date of stock-taking.

3. Raw Materials, also goods sold in the form in which they are bought, at cost price, plus inwards charges, or at market price, whichever is the lower.

Valuing Stock Above Cost Price

Although the general rule is not to value Stock at a price higher than actual cost, there are some exceptions. In the case of wine merchants, and also timber merchants, whose stocks as they mature become more valuable, it is the custom to value such stocks at cost plus a fixed percentage, equivalent to interest on the capital value of such stocks. The cost of storage is also added, if such has to be actually paid.

Breakage of Bulk, Waste

It rarely happens that the stock in hand, as shown by the stock sheets, agrees with the stock in hand as shown by the stock records. Numerous discrepancies are usually found, and these have to be adjusted.

The main cause of the shortage will be due to

what is called "breakage of bulk," i.e. buying stock in large quantities and then retailing or issuing it in small portions from time to time.

A ton of coal could not be weighed up into 20 separate and complete cwts. A cwt. of loaf sugar could not be weighed up into 112 separate and complete lbs. A $2\frac{1}{2}$ cwt. sack of flour could not be weighed up into a separate and equivalent number of 7-lb. gallons.

With a lumpy material it is more difficult than with a flaky or powdered material; but, even with the latter, allowance must be made for "the turn of the scale," as it is termed.

Not only with weighing, but also with measuring, the same difficulty arises. A four-bushel bag of bran, filled off a large bran heap in a flour mill, is naturally put up "light"; it could never be emptied out again into four separate and complete bushels.

A four-bushel sack of mixed corn, when emptied into the shop bin for retailing to customers as poultry feed, will never make the exact number of quarts, or pecks, or gallons stated in the Table Book.

sustained by evaporation whenever the liquid is exposed to the air; which happens every time that a portion of the liquid has to be issued.

In addition to the above causes, a shortage may also arise through accidental breakage of jars or bottles, through flooding due to unusually heavy rains, through pilfering, through stock deteriorating and having to be destroyed, and other causes.

Adjustment of Stock Records

In the stock records, the discrepancy will have to be written off, i.e. entered in the quantity column, on the issues side, as "Shortage," or "Waste," underneath the stock balance. The latter will be brought down to the receipts side ready for the new period.

Entries in Financial Books

In the financial books the shortage will not appear, unless the Stock Accounts contain both quantity and price columns, as in the following illustration of a corn merchant's Stock Ledger—

Dr.		OATS ACCOUNT										Cr.	
19..		qr.	bus.	£	s	d	19..		qr.	bus.	£	s	d.
Dec. 31	To Amount b/f . .	204	6	256	18	10	Dec. 31	By Amount b/f . .	185	7	274	13	11
								„ Stock c/d . .	16	5	20	10	6
								„ Waste . .	2	2			
		204	6						204	6			
	To Balance (Gross Profit) . .			38	5	7							
				£295	4	5					£295	4	5
19..													
Jan. 1	To Stock b/d . .	16	5	20	10	6							

Again, the same may be said with reference to cutting. To cut 50 separate and complete yards off a 50-yard roll of cloth or calico, would require a very skilful measurer and cutter. More often than not, the last piece would be a remnant of considerably less length than a yard.

A similar shortage arises with liquids.

A "full" cask does not always yield "full" measure. The wood of the cask absorbs some of the liquid, and there is a consequent leakage or shortage, or "ullage" as it is technically termed. With the measuring out of liquids, there is also a certain amount lost through spilling and "drip." Further, with some liquids, especially chemicals, a certain loss is

Shrinkage on a Large Scale

The shrinkage of weight or quantity due to constant retailing of small amounts is directly proportionate to the turnover, and in businesses with large sales it will therefore assume very large proportions.

Worked Example

The following are the transactions of a coal merchant for the month of March—

- Mar. 1. Stock on hand, net weight, 270 tons, valued at £403 15s. 6d.
4. Purchased 500 truck loads of 7 tons each, colliery weight of 21 cwt. to the ton, at 20s. per ton.

- Mar. 5. Railway carriage on above at 10s. per colliery ton.
 9 Purchased cargo of 1,240 tons, colliery weight, at 20s. per ton.
 18. Freight to London and unloading, £420.
 31. Coal sales—
 4,630 tons large at 36s per ton.
 332 tons small at 10s. 6d. per ton.
 Cartage and expenses on sales at 3s. per ton.
 Stock on hand, net weight, 100 tons, valued at £140 10s.

It is desired to draw up the merchant's

Coal Account for the month ending 31st March (see below).

Card Stock Ledgers

In some firms, Card Ledgers have been found very suitable for stock records. They act as a perpetual inventory, and can be used either as records for raw materials or for manufactured goods. In some businesses they are a necessity, and in others a great convenience. Subject guide cards are used with them to facilitate reference.

COAL ACCOUNT										Cr.		
Dr.												
		Tons	£	s.	d.	19..		Tons	£	s.	d.	
19..						19..						
Mar. 1	To Stock . . .	270	403	15	6	Mar. 31	By Sales—					
4	„ Purchases . . .	3,675	3,500	—	—		Large . . .	4,630	8,334	—	—	
5	„ Carriage . . .		1,750	—	—		Small . . .	332	174	6	—	
9	„ Purchases . . .	1,302	1,240	—	—							
18	„ Freight . . .		420	—	—		Less Cartage and Expenses . . .		744	6	—	
							„ Stock c/d . . .	100	7,764	—	—	
							„ Shrinkage . . .	185	140	10	—	
		5,247						5,247				
31	To Balance (Gross Profit)		590	14	6							
			£7,904	10	—				£7,904	10	—	
19..												
April 1	To Stock b/d	100	140	10	—							

CHAPTER XX

TRADING AND PROFIT AND LOSS ACCOUNT

IF Mr. Brown buys £10,000 worth of goods during a given period, and sells them for £12,000 during the same period, we should say that he has made a gross profit of £2,000.

The account in which we should make these entries would be called a Trading Account.

But Mr. Brown has expenses, and these have to be taken into account. Let us suppose he has had to pay out £950 for rent, rates, salaries, selling, and sundry expenses. Then his net profit would be £1,050.

And the account in which we should make the above entries would be called the Profit and Loss Account.

When a firm makes up its books for a period and takes stock, the results of the trading for that period are usually presented in two accounts.

These are—

- (a) The Trading Account ; and
- (b) The Profit and Loss Account.

Both accounts are usually presented as if they were two parts of the same account, a balance showing gross profit being brought down from one part to the other.

But, broadly speaking, the Trading Account must be made up from a number of items of which some very important ones are purchases, sales, stock at the beginning of the period and stock at the end of the period.

Now let us take a very simple Trading and Profit and Loss Account.

In the account below, it will be noted that the first few items are ruled off, and a balance of gross profit is brought down.

The account above the ruling is the Trading Account, and that below is the Profit and Loss Account.

Meanings of Terms

The following important facts should be noted—

A Trading Account is an account constructed in order to ascertain the *gross* profit made by trading.

A Profit and Loss Account is an account constructed in order to ascertain the *net* profit made by trading.

Profit is the surplus that remains after paying all expenses and providing for the capital that has been consumed in earning the surplus.

Gross Profit is the excess of the selling price of the goods over the purchase or cost price of the goods, including any purchase expenses, and after adjusting any stock at commencement and finish of the trading period.

Net Profit is the excess of the gross and other subsidiary profits (if any) over the selling and management expenses.

Turnover is a term used to denote the *total sales* of a trader during a given period. It must be carefully distinguished from the term "Output" which signifies the quantity of goods *manufactured* during a certain time, or the

TRADING AND PROFIT AND LOSS ACCOUNT
FOR YEAR ENDING 31ST DECEMBER, 19..

Dr.	FOR YEAR ENDING 31ST DECEMBER, 19..				Cr.		
	£	s.	d.		£	s.	d.
To Stock, 1st January	1,850	—	—	By Sales <i>less</i> Returns	8,360	—	—
„ Purchases <i>less</i> Returns	5,240	—	—	„ Stock 31st December	2,100	—	—
„ Balance Gross Profit c/d	3,370	—	—				
	£ 10,460	—	—		£ 10,460	—	—
To Salaries	423	—	—	By Balance (Gross Profit) b/d	3,370	—	—
„ Office Expenses	112	—	—				
„ Postage and Stationery	84	—	—				
„ Rent, Rates, Taxes, and Insurance	130	—	—				
„ Miscellaneous Expenses	1,435	—	—				
„ Bad Debts	80	—	—				
„ Balance, Net Profit	1,106	—	—				
	£3,370	—	—		£3,370	—	—

quantity of raw material *extracted* from a mine or quarry during a specified period.

Nature of Ledger Balances

Before proceeding to the construction of a Trading and Profit and Loss Account, there must be a clear conception of the nature of Ledger balances.

Debit balances represent either assets or losses. If the debit balance denotes a debt, i.e. an Account Receivable, or if it denotes tangible expenditure, i.e. Property such as plant and fixtures, it is an asset to be placed on the Balance Sheet. If the debit balance represents intangible expenditure, i.e. an expense such as rent, wages, and salaries, it is a loss to be entered in the Profit and Loss Account.

Credit balances are either gains or liabilities. If the credit balance represents a debt, i.e. an Account Payable, it is a liability to be entered in the Balance Sheet. If the credit balance denotes an income such as rent received, or discount received, it is a gain to be entered in the Profit and Loss Account.

Trading Account as a Record of Goods

As will be seen from the illustration on page 263, the Trading Account is a record of a firm's stock of goods.

Regarding it as the warehouse or store account it answers the following questions—

1. How much was there at the beginning of the year? (Stock at 1st January.)
2. How much has come in since? (Purchases.)
3. How much has gone out? (Sales.)
4. How much is left? (Stock at 31st December.)

Such a Trading Account meets the needs of the man who deals with manufactured goods by purchase and sale. But it does not meet the needs of a man who buys raw material and pays employees to manufacture it. In his Trading Account he must include the manufacturing wages and expenses.

Contents of the Trading Account

On the *debit* side of the Trading Account are placed the stock (if any) at the commencement of the trading period, the Purchases, Carriage inwards, Manufacturing Wages, Coal and Coke, and any other production expenses, and sometimes Rent, Rates, and Taxes of factory. In the first year of a trader's trading there will be no Stock at start, unless the trader has bought up a going business; the debit side of the Trading

Account will, therefore, start with the Purchases.

On the *credit* side are placed the Sales, and the Stock at the close of the trading period. The Purchases Returns and the Sales Returns are sometimes shown on the credit and debit sides of the Account respectively; but, more usually, the Purchases Returns are deducted from the Purchases, and likewise the Sales Returns from the Sales, in the first or inner column, and only the net Purchases and the net Sales entered in the second or outer column.

The excess of the credit or selling side over the debit or cost side is called the *gross profit*. When found, it is written in on the debit side, in order to make both sides of the Trading Account agree, thus closing it. The gross profit is then transferred to the credit side of the Profit and Loss Account.

Contents of the Profit and Loss Account

On the *debit* side of the Profit and Loss Account are placed all the expenses or losses of running the business, including the expenses of management, and interest on the proprietor's or partners' capital. Such losses are non-productive Wages and Salaries, Discount, Rent, Rates, and Taxes of office and warehouse, Freight, Carriage, and Carting outwards, Travelers' Salaries, Expenses, and Commission, Printing and Stationery, Advertising, Insurance, Repairs, Office Expenses, Sundry Expenses, Depreciation of assets, and Interest on capital.

On the *credit* side are placed the Gross Profit, Discounts Received, Rent Received, Interest Received, Commission Earned, Apprentice Premium, etc. If the credit side of the account exceeds the debit side, the balance is called the *net profit*; if the debit side exceeds the credit side, the balance is termed the *net loss*. The profit or loss is transferred to the partners' Capital Accounts, or their Current Accounts, as per the partnership agreement.

Percentages of Gross and Net Profit on Turnover

In many businesses it is necessary to ascertain the percentages of gross and net profit on the total sales for the year, in order that comparisons may be made with previous years, and any fluctuations carefully inquired into before being passed. Such percentages are obtained by calculations, as shown below—

$$(a) \frac{\text{Gross Profit} \times 100}{\text{Turnover}}; (b) \frac{\text{Net Profit} \times 100}{\text{Turnover}}$$

As a matter of fact it would be better *mathematically* to make the calculation on the *cost* price instead of the selling price ; but, in business, *cost* is a very difficult thing to determine, as it is affected by many obscuring items such as freight and carriage inwards, coal and coke, manufacturing wages, and expenses. For the sake of greater convenience, therefore, profit on *selling price* is the common standard for purposes of comparison.

Selling price, too, is a definite final amount, whereas a manufactured commodity passing through several processes would have a different value at the end of each process, so that the cost price would be not one but many, and the worth of each calculation would be restricted to that particular stage of manufacture.

Difference Between a Trading Account and a Cost Account

A Trading Account contains only a *part* of the cost expenses ; a Cost Account contains the *whole* of them. Some prime cost items vary directly with the turnover ; for instance, the greater the turnover, the greater the expense for wages, coal and coke, and other ingredients. But many cost expenses do not vary with the turnover ; such are repairs and renewals of buildings, rent, etc.

In order, therefore, to keep the rate of gross profit constant and enable comparisons to be made year by year, it is usual to charge to the Trading Account only such items of cost as vary directly with the turnover. In a Cost Account, however, all cost expenses would have to be included, whether such expenditure was usual or out of the ordinary, and whether it was constant or fluctuating.

Difference Between a Trading Account and a Manufacturing Account

A Manufacturing Account, properly so called, deals only with *raw materials* and manufacturing expenses.

A Trading Account, strictly speaking, deals only with *finished goods*, i.e. goods ready for sale, whether purchased or manufactured. The balance of the Manufacturing Account, after crediting the unused stocks of raw material (if any), is transferred to the debit side of the Trading Account.

Difference Between a Trading Account and a Profit and Loss Account

A Trading Account deals with the *purchase* expenses, such as the cost of the goods, freight

and carriage inwards, and also any manufacturing expenses, such as coal, coke, and productive wages.

A Profit and Loss Account deals with the *selling, distributing, and management* expenses, such as travellers' and salesmen's salaries, carriage and freight outwards, salaries of office staff and manager, rent, rates and taxes of office and warehouse, and interest on capital.

A Trading Account shows only the *gross* profit ; a Profit and Loss Account shows only the *net* profit.

Stock, Materials Consumed, Work in Progress

"Stock" denotes the value of the unsold goods at the commencement and close of the trading period. Both Stocks are entered in the Trading Account ; the Stock at commencement is placed on the debit side of the Account, and the Stock at finish is put on the credit side.

The Stock at start must be debited, because the trader's sales will include sales of the goods purchased and also sales of those which he already had on hand. The Stock at finish must be credited, because otherwise the trader will be striking a balance between *unequal quantities* of goods. He will, in fact, be crediting the sale of *part* of the goods against the cost of the *whole* of them.

In a manufacturing business the Trading Account sometimes shows no Purchases or even Stocks ; but, instead, there appears an item called "Materials Consumed." The amount of this item is arrived at by adjusting the two Stocks with the Purchases, thus—

Stock at Start	£	2,500
Add Purchases		7,875
		<hr/>
		10,375
Less Stock at Finish		2,868
		<hr/>
Materials Consumed	£	7,507
		<hr/>

The Stock at finish would, however, appear in the Balance Sheet as usual.

"Work in Progress" denotes partly executed work, something neither Stock nor Sales.

In a manufacturing business it consists of goods in process of manufacture, valued at the cost price of the raw material used plus wages paid on it to date of balancing.

In a non-manufacturing concern, such as a builder or contractor, it consists of partly executed contracts. Sometimes the value of it

is added to the Stock, and the two are then shown in one item as "Stock and Work in Progress." Generally speaking, however, it is shown as a separate item, and dealt with in the same way as Stock.

Work in Progress at start is debited to Trading Account; and Work in Progress at finish is credited to Trading Account, and also shown on the Balance Sheet, underneath the Stock, on the assets side.

Carriage, Freight, and Cartage

Carriage is the charge made for conveyance of goods *by land*, as opposed to freight, which is the charge made for conveyance of goods *by water*. Modern accountants divide both carriage and freight into two accounts. Carriage and freight *inwards*, that is, on *purchases*, are debited to the Trading Account; but carriage and freight *outwards*, that is, on *sales*, are debited to Profit and Loss Account.

Cartage is the charge made for conveying goods from docks to warehouse, and also from warehouse to docks. Like carriage and freight, it is divided into *inwards* and *outwards*, the former being debited to Trading Account, and the latter to Profit and Loss Account.

"Carriage and Carting" is, in the books of builders and contractors, frequently debited to Trading Account. This is because this item has been charged for in the estimate, usually at a profit, and therefore is included in the Sales. The entries in each side of the Trading Account consequently offset each other.

Manufacturing Charges or Expenses

These are expenses of a miscellaneous character that directly increase the cost of the goods produced. Where a separate Manufacturing Account is not prepared, such expenses are usually debited to Trading Account. These expenses include chemicals for bleaching, dyeing, or dressing materials; fuel such as coal and coke, and wood; motive power such as gas for running small engines, electric current and hydraulic power for working machinery; engine room stores such as oil, tallow, soft soap, and cotton waste.

Wages and Salaries

Wages are usually divided into *remunerative or productive* wages, and *unremunerative or non-productive* wages. Productive or manufacturing wages are those which are a *direct* charge in the cost of manufacture or production,

such as the wages of the factory workpeople and staff. Factory salaries are also classed as a productive expense.

When a separate Manufacturing Account is not prepared, manufacturing wages must be placed in the Trading Account, in order that the correct gross profit may be found. For instance, a furniture manufacturer buys raw timber, and then pays wages to have it made into various articles of furniture. He could not logically credit the sale of the manufactured article, i.e. the furniture, against merely the cost of the raw material, i.e. the timber.

To ascertain the correct profit, he must offset the sale of the manufactured article against the cost of the manufactured article, which is the cost of the raw timber plus the wages paid to make it into furniture.

In some cases, too, wages are entered in the Trading Account which are not strictly speaking "manufacturing" wages.

For instance, a large rag merchant buys goods in one condition, and then pays wages to have them sorted, cleaned, and packed ready for sale. Such wages, though not manufacturing, are yet a trading charge; the expense has to be incurred before the goods can be sold. Non-productive wages are those of carmen, store-keepers, cleaners, night watchmen, and others. Such wages are usually debited to Profit and Loss Account.

The terms "salaries" and "wages" are not always used with the same signification. Generally speaking, however, "wages" denotes some hourly, daily, or piece-work rate of pay; while "salaries" denotes some fixed weekly, monthly, or yearly remuneration.

Generally speaking, too, when wages and salaries are kept in separate accounts, it is because the wages are to go to Trading Account, and the salaries to Profit and Loss Account; and when salaries and wages are both kept together in one account, it is because they are both non-productive (as in the case of a business merely buying and selling), and are, therefore, to go in the Profit and Loss Account.

Attempts have been made to discriminate between "wages" and "salaries," as follows—

1. By the *amount* of the payment. A small weekly sum is termed a "wage"; and a large weekly or monthly sum is called a "salary."
2. By the *kind of work* done. Payment for work of a mechanical nature is spoken of as "wages"; while payment for work of an administrative character is regarded as "salaries."

3. By the *period of time*. Payments by the hour, day, or week are termed "wages"; while payments by the month, quarter, or year are called "salaries."

The above distinctions, however, have not been generally accepted, and, therefore, no hard and fast rule can be laid down.

Salaries are sometimes classified into office, travellers, and management salaries. Partners' salaries should always be kept in separate accounts, quite distinct from the staff salaries, as they require special treatment when preparing the firm's accounts for income tax purposes.

Rent, Rates, and Taxes

Rent is a money payment in return for the use of the business premises. Rent of factory is usually kept separate, and, in the absence of a proper Manufacturing Account, is generally debited to the Trading Account as a *cost* expense.

Rent of office and warehouse is charged to the Profit and Loss Account as a *selling* expense.

"Ground Rent" is rent payable to the owner of the land on which the buildings have been erected. Ground Rent of factory is charged to the Trading Account; but Ground Rent of office and warehouse is charged to the Profit and Loss Account.

Where the factory belongs to the proprietor of the business, it is usual to ascertain the rentable value of the factory, and to debit this sum to the Trading Account, and likewise credit it to the Profit and Loss Account. Although this is only a book entry of equal debit and credit, it has the advantage of showing more nearly the true profit, i.e. as would be the case supposing the factory had to be rented.

It might also happen that some part of the premises, not being required, could be conveniently sublet. The income received by subletting should be credited to a separate account entitled "Rent Received." It should not be credited to the Rent Paid Account, as it would have the effect of reducing the amount so paid, and thus give a wrong impression of the amount of the charge for rent.

Rates and taxes are the sums levied by local government authorities and the Government respectively, in order to defray the cost of public administration. They comprise general rate, property tax, land tax; in some cases, water rate; and other charges. Rates and taxes of factory are charged to Trading Account; but rates and taxes of office and warehouse are debited to Profit and Loss Account.

Discount, Interest, and Commission

Discount is an allowance for payment of an account within the stipulated time. Two accounts are now usually kept for such allowances, and are called "Discounts Allowed" and "Discounts Received" respectively. Discounts allowed, being a *loss*, are debited to Profit and Loss Account; but discounts received, being a *gain*, are credited to Profit and Loss Account.

Other terms are also in use; and we constantly meet with "discounts on purchases" and "discounts on sales." These terms denote the usual *cash* discounts; but, sometimes, there is a variation in the manner of dealing with them.

For instance, some accountants debit the discounts on sales to Trading Account, so as to show the true net figure of the sales; others credit the discounts on purchases to the Trading Account, in order to charge only the actual net purchases. Such preciseness is more suitable, however, for a Cost Account than a Trading Account. Many accountants think that discounts on purchases are more a matter of financial management than of trading, and therefore put such discounts always in the Profit and Loss Account.

Interest comprises the charges on renewed bills of exchange, overdue accounts, on Bank overdraft or current account, on outside loans, etc. It is usually divided into two separate accounts, one for Interest Paid, and the other for Interest Received. The former, being a *loss*, is debited to Profit and Loss Account; but the latter, being a *gain*, is credited to Profit and Loss Account.

If interest on loans has been paid *less tax*, the amount of the tax should be added back to the Interest Account, and credited to the Income Tax Account, as the *full* amount of such interest should be shown in the Profit and Loss Account, and not merely a *part* of it. Interest on Partners' Capital, and Interest on Partners' Drawings should be kept in separate accounts, in order to facilitate the preparation of the firm's accounts for income tax assessment.

Commission represents the sums paid to travellers or outside agents for their services in obtaining orders or in connection with the sale of goods. It is also divided into two accounts, called Commission Paid, and Commission Earned respectively, since the proprietor of the business may himself act as agent for other people's goods, and thus *earn* commission. Commission

Paid, being a *loss*, is debited to Profit and Loss Account; while Commission Earned, being a *gain*, is credited to Profit and Loss Account.

Advertising and Insurance

Many business firms spend large sums on advertising. It is looked upon as a *selling* expense, and consequently debited to Profit and Loss Account.

In order to obtain much cheaper rates, however, a large sum is paid down to cover a period of years. In such cases the money so laid out is debited to an Advertising Suspense Account. The amount applicable to each year is written off annually to Profit and Loss Account, and the balance carried forward on the assets side of the Balance Sheet.

Insurance comprises the annual payment of premiums to insurance companies for indemnity in the case of fire, burglary, breakage of plate glass windows, damages awarded under the Workmen's Compensation Act, and other costs. All such charges are regarded as *losses*, and consequently debited to Profit and Loss Account.

Packages and Packing Material

In many businesses the goods cannot be considered as ready for sale until they have been specially wrapped or enclosed in special packages. As this expense would undoubtedly be included in the selling price of the goods, the cost of such packages or packing should be debited to Trading Account.

In other cases packing material is looked upon as a selling expense, and is, therefore, charged to the Profit and Loss Account. Any unused stock of packing material must, of course, be credited to the Packing Material Account at balancing time, so that the Profit and Loss Account gets charged only with the amount actually used during the trading period concerned.

Adjustments at Balancing Time

Adjustments include various items which must be charged or provided for before ascertaining the profit. Some adjustments affect the gross profit, while others, by far the more numerous, affect the net profit. Accruing liabilities and income must be brought into account; prepaid income and expenditure must be carefully apportioned; proper provision must be made for the wasting of capital assets; and reserves must be created for expected losses and gains.

In addition to these, interest has usually to be allowed on partners' Capital, and, in some cases, charged on partners' Drawings.

Accruing Liabilities

It seldom happens that the closing day of the half-yearly trading period coincides with the end day of the working week; more often it falls about the middle of the week. Thus, there is usually two or three days' wages and salaries to provide for, so that a year's accounts shall contain a year's wages and salaries. Such provision is merely for the purpose of correct accounting; for such wages and salaries would not be paid before the usual time, the end of the week or month, as the case may be.

Again, rent is payable on the fixed quarter days. The midsummer and Christmas quarter days are 24th June and 25th December respectively. Six more days' rent must, therefore, be worked out and added on to the rent paid, so that rent shall be charged for the half-year ended 30th June, or the year ended 31st December, as the case may be.

Journal entries may be passed to deal with these adjustments, the accrued amounts being debited to their respective Ledger Accounts, and credited to an Accrued Expenses Account, which appears also on the liabilities side of the Balance Sheet. More often, however, they are brought down as credit balances in their own Ledger Accounts.

Accruing Income

Where a business firm has some gilt-edged investments, credit may be taken for any dividends due at balancing time but not actually received. In such cases as Consols and War Loan, Profit and Loss may be credited with the amount of the Dividends accrued, *less tax*.

Again, in the case of premises being sublet, some Rent Receivable may have accrued up to date of balancing. Such rent may have been received up to the last quarter day, say, 25th December, yet at 31st December, six more days rent will have become due.

Such Dividends and Rent Receivable are not payable to the recipients before the proper dates, in the case of Consols about 5th January, and in the case of the Rent Receivable, probably the March quarter; yet, for the purpose of correct accounting, such provisions must be made at the 31st December, if such date is the end of the firm's financial year.

Journal entries may be passed in order to

deal with such accruing income, the accrued amounts being credited to their respective Ledger Accounts, and debited to an Accruing Income Account, which appears on the assets side of the Balance Sheet. More often than not, however, the accrued amounts are written in on the credit side of their Ledger Accounts in order to close the old period, and then brought down in the same Account as debit balances for the new period.

Apportionments of Prepaid Income and Expenditure

Income is sometimes received in advance, as in the case of royalties, apprentice premium, etc. The income must be apportioned, the amount being divided by the number of years over which the income extends. By this means each year receives its proper share. The Profit and Loss Account must be credited only with the *current* year's share.

Journal entries may be passed to deal with these adjustments, the unexpired amounts being debited to their respective Ledger Accounts, and credited to an Unexpired or Prepaid Income Account, which would appear on the liabilities side of the Balance Sheet. Generally speaking, however, the amount applicable to the current year is written off to Profit and Loss, and the unexpired amount is brought down as a balance in its own Ledger Account.

Expenditure is frequently found to be prepaid at balancing time. This is especially the case where telephone rent, trade subscriptions, fire insurance, etc., are paid for a year, and the year covered by such payments does not coincide with the trading year of the firm. The unexpired value of such payments must be ascertained, deducted from the yearly payments, and carried forward to the following year. Only that portion which relates to the *current* year must be charged against the current year's profits.

Thus, supposing a firm's trading year to run from 1st January to 31st December, and that on 1st April they joined a trade society and paid an annual subscription of £10. At the end of December, three months of the subscription would be prepaid, as the payment would cover the period up to the following 31st March. Three-twelfths or one-fourth of the £10, namely £2 10s. would be carried forward to the next year's accounts, leaving £7 10s. to be debited to this year's Profit and Loss Account.

Journal entries may be made to adjust these

items, the prepaid amounts being credited to their respective Ledger Accounts, and debited to an Unexpired Payments Account or a Prepaid Outlay Account, which also appears on the assets side of the Balance Sheet. The more usual practice, however, is to credit the prepaid amounts in their respective Ledger Accounts, and to bring down the amounts as debit balances in their own Accounts.

Depreciation of Assets

Provision must also be made at balancing time for the wasting of capital assets, as they are obviously worth less and less after each year's use. Such loss is undoubtedly incurred in the earning of the profit, and consequently must be made good out of it. No general rates of depreciation can be laid down, as so much depends on circumstances, especially with regard to machinery.

A certain fixed rate might be adequate for normal working; but occasionally factories work only half time, then perhaps full time for a while, then perhaps overtime, and finally, with a rush of orders, perhaps day and night. The amounts written off land and buildings, plant and machinery, furniture and fixtures, etc., are debited to a Depreciation Account, which is itself closed to the Profit and Loss Account. The subject of Depreciation is dealt with fully in a separate chapter.

Reserves for Expected Gains and Losses

In some cases, credit is taken for discounts which will be received when the creditors' accounts are paid. The amount is credited to Profit and Loss as Reserve for Discount on Creditors, and is subtracted from the Sundry Creditors on the Balance Sheet.

A Reserve for Bad Debts is also made, the amount being arrived at by calculating a certain percentage on the Debtors, usually 5 per cent. The amount is debited to Profit and Loss Account as Reserve for Bad Debts, and deducted from the Sundry Debtors on the Balance Sheet.

A second Reserve is sometimes made in connection with the Debtors. After deducting a certain percentage for possible Bad Debts, a further percentage of about 5 per cent or $2\frac{1}{2}$ per cent is taken off for possible loss by Discount. Such percentage is debited to Profit and Loss Account as Reserve for Discount on Debtors, and deducted from the Sundry Debtors on the Balance Sheet.

A Reserve for Audit Fee is also made, so that the fee shall be charged against the actual period of account audited. The fee cannot be claimed until the accounts have been audited, and the audit cannot be completed until the end of the period ; hence the necessity for the Reserve.

The whole question of Reserves is fully dealt with in a subsequent chapter.

Unused Stocks of Stores and Materials

At balancing time there will usually be some unused stocks of printing and stationery ; catalogues, sample books, pattern books ; circulars, posters, leaflets, and other advertising material ; also stocks of coal, wood, oil ; corn, hay, and straw for horses ; or petrol for motor vehicles.

These unused stocks must be carefully valued, usually at cost price, and the values subtracted from the amount appearing to the debit of these Accounts, so that the Profit and Loss Account is charged only with the amount of such stores and materials actually used. The unused stocks will appear on the assets side of the Balance Sheet.

Health, Pensions, and Unemployment Insurance

By the National Insurance Acts, all manual workers aged 16 and upwards and, with a few exceptions, all other workers whose income does not exceed £250 per annum, are compelled to contribute, jointly with their employers, to the National Health and Pensions Fund.

The employer buys sheets of Health and Pensions stamps for which he pays at the rate of 1s. 6d. per stamp. Half of this amount he is entitled to deduct from the wages of his employees (male).

By the Unemployment Insurance Acts, 1920 to 1922, both employer and employee have to contribute to the Unemployment Insurance Fund. Unemployment Insurance stamps have to be purchased by the employer at varying rates for men, women, girls, and boys ; but about half of the cost of each stamp is recoverable out of the wages of the employee.

In large firms and companies, where insurance stamps are bought in large quantities and debited to an Insurance Stamps Account, an adjustment will be necessary at balancing time. The net wages paid will have been debited to the Wages Account, and the net salaries paid will have been debited to the Salaries Account.

The amount of the stamps deducted from the employees' wages and salaries must be added to the Wages Account and the Salaries Account respectively, and credited to the Insurance Stamps Account.

The Wages Account and the Salaries Account will thus be raised to their correct totals, while the Insurance Stamps Account will represent only the employer's share of such contributions. The Insurance Stamps Account will then be closed by transfer to Profit and Loss Account, just like any other business expense.

In small firms the procedure employed is to draw weekly the full amount of each wage or salary, and deduct the employees' contributions. The amount due from the employer is then added, and, with the total sum, the requisite stamps are duly purchased.

The amounts thus debited week by week to Insurance Stamps Account represent merely the employer's part of such expense ; and at balancing time this Account will not need any adjustment, and can, therefore, be closed in the usual way by transfer to Profit and Loss Account.

The whole question of Health and Pensions Insurance, and also Unemployment Insurance, as it affects the records in the Wages Books and Sheets, has been dealt with in a previous chapter.

Interest on Capital and Drawings

Where there are partners in a business, it is usual for Interest on Capital to be charged against profits before ascertaining the net profit.

Even where the business belongs to only one proprietor, such Interest should still be charged. If the same amount of Capital had been invested elsewhere, it would have earned Interest. Why, then, should it not also earn Interest when invested in the proprietor's own business ? Such Interest is not actually paid, but is credited to the Capital Account ; nevertheless it operates as a loss to the business, since it reduces the profit that would otherwise be available.

The modern theory is that Drawings are out of profits that are being made month by month, and not out of Capital, and therefore are not chargeable with Interest.

In some cases, however, where the partners draw out very unequal sums, it is agreed that such Drawings shall be chargeable with Interest, in order to prevent one partner getting an advantage over the others. In such cases the

Drawings are debited with Interest, which is also credited to Profit and Loss Account as a business gain.

Worked Example

From the Trial Balance given below, extracted from the books of Messrs. Vapper & Peale, we will prepare a Trading and Profit and Loss Account, for the year ended 31st December, 19..

Let us suppose that the following adjustments are necessary—

Charge Depreciation on Land and Buildings at $2\frac{1}{2}$ per cent, also on Plant and Machinery at 10 per cent, and on Furniture and Fixtures at 10 per cent per annum.

Make a Reserve of 5 per cent on the Sundry Debtors for possible Bad Debts.

Carry forward Unexpired Rates and Taxes, £34 15s. 6d.; Unexpired Fire Insurance, £21 6s. 6d.

The Apprentice Premium is for five years, and must be apportioned accordingly.

Make a Reserve for Audit Fee, £100; and provide for Wages accrued, £64 15s. 6d.; Salaries accrued £35 4s. 6d.

Interest is to be allowed on Capital at 5 per cent, but no Interest is to be charged on Drawings.

Profits and Losses are divisible equally.

The value of Stock at 31st December was agreed at £3,419 12s. 8d.*

TRIAL BALANCE

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	1,078	12	6			
Cash in hand	25	11	10			
Sundry Debtors	4,678	15	1			
Sundry Creditors				2,287	16	8
Land and Buildings	3,000	—	—			
Plant and Machinery	1,750	19	6			
Furniture and Fixtures	225	12	8			
Stock, 1st Jan.	3,156	15	4			
Purchases	3,898	16	8			
Sales				10,564	11	9
Returns Inwards	247	13	11			
Returns Outwards				684	12	8
Bills Receivable	868	12	6			
Bills Payable				674	19	6
Carriage Inwards	359	11	4			
Carriage Outwards	250	12	10			
Manufacturing Wages	2,086	15	6			
Salaries	675	12	6			
Coal, Gas, and Water	154	8	3			
Rates and Taxes	101	11	8			
Apprentice Premium				200	—	—
Fire Insurance	65	10	—			
Interest and Bank Charges	59	14	6			
Discounts Allowed	476	12	7			
Discounts Received				268	16	3
General Expenses	188	9	10			
Bad Debts	178	15	6			
Bad Debts Reserve, 1st Jan.				250	—	—
Insurance Stamps	86	3	8			
A. Vapper, Capital A/c, 1st Jan.				5,727	12	6
H. Peale, Capital A/c, 1st Jan.				4,506	18	10
A. Vapper, Drawing A/c	850	—	—			
H. Peale, Drawing A/c	700	—	—			
	£25,165	8	2	£25,165	8	2

TRADING AND PROFIT AND LOSS ACCOUNT

Dr.

FOR THE YEAR ENDING 31ST DECEMBER, 19..

Cr.

	£	s	d	£	s	d		£	s	d	£	s	d
To Stock, 1st January				3,156	15	4	By Sales	10,564	11	9			
" Purchases	3,898	16	8				Less Returns	247	13	11			
Less Returns	684	12	8								10,316	17	10
" Carriage Inwards				3,214	4	—	" Stock, 31st December				3,419	12	8
" Manufacturing Wages	20,86	15	6	359	11	4							
Add Amount Accrued	64	15	6										
" Coal, Gas, and Water				2,151	11	—							
" Balance (Gross Profit) c/d				154	8	3							
				4,700	—	7							
				£ 13,736	10	6					£ 13,736	10	6
To Carriage Outwards				250	12	10	By Gross Profit b/d				4,700	—	7
" Salaries	675	12	6				" Apprentice Premium	200	—	—			
Add Amount Accrued	35	4	6				Less Amount Unexpired	160	—	—			
" Rates and Taxes	101	11	8	710	17	—	" Discounts Received				40	—	—
Less Amount Unexpired	34	15	6				" Bad Debts Reserve	250	—	—	268	16	3
" Fire Insurance	65	10	—	66	16	2	Less New Reserve, 5% on £4678 15s. 1d.	233	18	9			
Less Amount Unexpired	21	6	6								16	1	3
" Interest and Bank Charges				44	3	6							
" Discounts Allowed				59	14	6							
" General Expenses				476	12	7							
" Bad Debts				188	9	10							
" Insurance Stamps				178	15	6							
" Reserve for Audit Fee				86	3	8							
" Depreciation—				100	—	—							
Land and Buildings, 2½% on £3000	75	—	—										
Plant and Machinery, 10% on £1750 19s. 6d.	175	2	—										
Furniture and Fixtures, 10% on £225 12s. 8d.	22	11	3	272	13	3							
Interest on Capital—													
A. Vapper, 5% on £5727 12s. 6d.	286	7	8										
H. Peale, 5% on £4506 18s. 10d.	225	6	11	511	14	7							
Balance (Net Profit)—													
A. Vapper, ½	1,039	2	4	2,078	4	8							
H. Peale, ½	1,039	2	4										
				£5,024	18	1					£5,024	18	1

CHAPTER XXI

DEPRECIATION AND RESERVES

THE manufacturer who installs a new machine in his factory at a cost of £1,000, knows when he does so that the appliance can only have so many years of life. It is a wasting asset which every year will have a diminished value.

From experience he can estimate what that waste will be. His calculation may not work out precisely, but putting one machine against another, his own judgment and that of others in his trade enable him to arrive at an opinion that is more or less sound.

The difficulty of precise judgment can be understood from the following cases.

"We have always depreciated machinery and plant at the rate of 10 per cent off purchase price annually," said a manufacturer, who was showing a visitor round his works. "My father put in that big boiler 40 years ago, and it is still useful as a low pressure boiler. But it has had no value on our books for 30 years."

Another case—

A millowner showed a great floor of appliances to a visitor; 160 of them he said, and they cost several hundred pounds each. The floor represented tens of thousands of pounds worth of plant.

"Yet a single inventor by just one brain wave could scrap it all," said the millowner. "We must have the newest machinery or we can't compete. If a better machine comes on the market, all this is old iron."

Or another case—

On the death of a partner the widow was to be paid out according to an old arrangement by which she should have half the value of assets and a small life income.

The surviving partners showed that the book value of the assets was about £3,000.

But the widow contended that the assets included a warehouse in what had become a main street. Although bought fifty years before for a few hundreds it had now a rental value of thousands a year.

And the lady won her point. On the books the freehold premises had been depreciated out of sight, but far from wasting as machinery would, it had soared in worth.

The above illustrations show how very diffi-

cult estimates can be in making provision for depreciation of any kind of property. In these days a firm would not mix up its freehold or leasehold property with its plant and fittings, and the last difficulty would not arise.

Depreciation, Fluctuation, Wear and Tear

Depreciation is the gradual decrease or loss of value of an asset from any cause whatever. It signifies a *permanent* loss of value, as opposed to fluctuation, which denotes a *temporary* increase or decrease in value, and in contradistinction to wear and tear, which denotes loss of value from one particular cause, namely use.

Causes of Depreciation

There are two causes of depreciation, namely—

1. An ordinary inherent or internal cause, such as the wear and tear of wasting assets, caused by use or working, e.g. depreciation of plant and machinery, buildings, tools, and other assets.

2. An extraordinary or external cause, such as a fall in the market price of investments, the expiration of time in the case of leases, patents, etc., and obsolescence in the case of machinery and appliances.

Object of Charging Depreciation

One reason for charging depreciation is that assets shall appear on the Balance Sheet at approximately their real value. If they continue to be shown year by year at cost, the Balance Sheet does not correctly represent the state of affairs.

Another reason is that assets such as tools, plant and machinery, are held for the purpose of earning income, and the loss of value of these assets through wear and tear is rightly regarded as part of the cost of earning such income, and should, therefore, be charged or set off against it. The most important reason, however, is that unless depreciation was provided for by charges against income, additional capital would have to be introduced whenever it became necessary to replace the asset.

Life, Residual Value, and Scrap

There are some special terms in use in connection with the subject of depreciation, and their meaning should be carefully noted.

The "life" of an asset is the number of years during which it will continue to be useful for production. A lease may last only for seven years, a patent for sixteen years, a certain machine for ten years.

The "residual value" of an asset is its value at the end of its estimated life. A machine which has served its period of usefulness may, however, be worth something as old iron. Worn-out furniture and fixtures may have some value as firewood.

"Scrap" is discarded or broken-up machinery or other assets. In some cases plant and machinery have to be "scrapped," i.e. thrown on the scrap heap before their proper time, because new machines have been invented which will do the same work much more quickly and also much more cheaply. The manufacturer is compelled to introduce such new machinery, otherwise his prices will not be able to compete with those of other manufacturers who are using it.

The fear of "obsolescence," i.e. machinery being rendered obsolete by more recent and better inventions, influences, to a very large extent, the rate of depreciation. Where the loss sustained by obsolescence is quite unexpected, and at the same time rather large, it is written off to Profit and Loss gradually over a series of years.

Repairs, Renewals, and Replacements

There are also three other terms which need some explanation, namely, repairs, renewals, and replacements. To repair means to restore, and thus make efficient for its purpose, whatever that may be.

To renew means to discard some part or parts of an asset, and to put in place of it a similar or improved part or parts.

To replace has the same meaning as to renew; but sometimes a distinction is made. Where similar parts are used, it is called a renewal; where improved parts are used, it is called a replacement.

Some accountants contend that, if proper provision is made for repairs and renewals, there is no necessity for depreciation. The majority of accountants, however, maintain that notwithstanding constant repairs, there is an inevitable depreciation, which must also be

provided for, unless fresh capital is going to be raised to supply the new asset.

Book Entries for Depreciation

To depreciate, in the accounting sense of the term, means to write down the value of assets. A Journal entry is made, crediting the asset with the amount of the depreciation, thus reducing the book value of the asset. The amount written off is also debited to a Depreciation Account, which is closed, at balancing time, to the Profit and Loss Account.

Methods of Depreciation

It can be seen from a consideration of the great variety of assets that the subject of depreciation is a wide one, and in consequence there are a number of different methods by which the desired end may be obtained. These different methods of providing for depreciation are seven, as follows—

1. Fixed Instalment Method.
2. Reducing or Diminishing Balance Method.
3. Annuity Method.
4. Depreciation Fund System.
5. Insurance Policy Method.
6. Revaluation Process.
7. Charging one amount to include repairs and renewals, and also depreciation.

Fixed Instalment Method

By this method, called also the "Straight-Line Method," a fixed proportion of the original cost is written off annually, so as to reduce the asset to zero or residual value at the end of its life. Repairs and small renewals are, year by year, charged to Profit and Loss Account. Patents, short leases, and sometimes plant and machinery are dealt with by this method.

Thus, suppose a manufacturer has a patent with sixteen years to run, then $\frac{1}{16}$ th of the original cost would be written off to Profit and Loss each year, and at the end of the sixteenth year, the amount of the Patents Account would be extinguished. Again, suppose a trader pays £1,400 for a lease with seven years to run, then £200 (one-seventh of £1,400) must be charged to Profit and Loss Account each year, in order that the Lease Account may be extinguished by the time the lease expires.

The lease is rendering the same service to the business year by year, i.e. enabling business to be carried on at such premises; and it is only fair, therefore, that *each year's profit* should bear an *equal* charge for such services. To show big

profits year by year, and then only at the last year to charge the whole of the amount of the lease, merely because it had not until then become an actual loss, would be extremely bad accounting.

The Ledger Account for the Lease would appear as follows as under—

A Journal entry would be made each year for six years, thus—

Depreciation Dr. £450
To Plant and Machinery . Cr. £450

The amount of the Plant and Machinery Account not written off would, year by year, appear on the assets side of the Balance Sheet.

Dr.				LEASE ACCOUNT				Cr.			
Year		£	s.	d.	Year		£	s.	d.		
1	To Cash	1,400	—	—	1	By Depreciation	200	—	—		
						„ Balance c/d	1,200	—	—		
		£1,400	—	—			£1,400	—	—		
2	To Balance b/d	1,200	—	—	2	By Depreciation	200	—	—		
						„ Balance c/d	1,000	—	—		
		£1,200	—	—			£1,200	—	—		
3	To Balance b/d	1,000	—	—	3	By Depreciation	200	—	—		
						„ Balance c/d	800	—	—		
		£1,000	—	—			£1,000	—	—		
4	To Balance b/d	800	—	—	4	By Depreciation	200	—	—		
						„ Balance c/d	600	—	—		
		£800	—	—			£800	—	—		
5	To Balance b/d	600	—	—	5	By Depreciation	200	—	—		
						„ Balance c/d	400	—	—		
		£600	—	—			£600	—	—		
6	To Balance b/d	400	—	—	6	By Depreciation	200	—	—		
						„ Balance c/d	200	—	—		
		£400	—	—			£400	—	—		
7	To Balance b/d	200	—	—	7	By Depreciation	200	—	—		

Suppose, again, that a manufacturer has purchased some plant and machinery, at a cost of £3,000; that its life is six years, and that its residual or scrap value is £300. Then £2,700 must be written off in six years, that is, £450 must be debited annually to Profit and Loss Account.

Looking at it from another point of view, he has to write off $\frac{2700}{6}$ or $\frac{9}{10}$ ths of the amount, that is, 90 per cent in six years; therefore, 15 per cent of the original outlay must be written off each year.

The Ledger Account of the Plant and Machinery would appear as shown on the next page.

The disadvantages of this method for plant and machinery is that, while the depreciation remains constant, there is an increasing charge to Revenue during the life of the asset. The reason for this is that, in the first few years, the repairs are light, but, in the later years, they get heavier and heavier. Again, any additions to the plant and machinery throw out the original calculation, and necessitate a fresh one being made.

Diminishing Balance Method

Under this method a fixed rate per cent on the diminishing annual balance of the Asset

Account is written off to Profit and Loss, so that the asset is reduced to its residual or break-up value at the end of its life.

Repairs and small renewals are, as under the former method, debited to Revenue. This method is generally used for plant and machinery, furniture, fixtures, and fittings, because it

rate per cent, n the number of years, and RV the residual value. In reducing the formula, logarithms are used to extract the roots.

By way of example, let us suppose that machinery is purchased for £1,000; that its period of usefulness for revenue-earning purposes is six years; that its residual or break-up

Dr.					PLANT AND MACHINERY					Cr.				
Year		£	s.	d.	Year		£	s.	d.					
1	To Cash	3,000	—	—	1	By Depreciation	450	—	—					
						„ Balance c/d	2,550	—	—					
		£3,000	—	—						£3,000	—	—		
2	To Balance b/d	2,550	—	—	2	By Depreciation	450	—	—					
						„ Balance c/d	2,100	—	—					
		£2,550	—	—						£2,550	—	—		
3	To Balance b/d	2,100	—	—	3	By Depreciation	450	—	—					
						„ Balance c/d	1,650	—	—					
		£2,100	—	—						£2,100	—	—		
4	To Balance b/d	1,650	—	—	4	By Depreciation	450	—	—					
						„ Balance c/d	1,200	—	—					
		£1,650	—	—						£1,650	—	—		
5	To Balance b/d	1,200	—	—	5	By Depreciation	450	—	—					
						„ Balance c/d	750	—	—					
		£1,200	—	—						£1,200	—	—		
6	To Balance b/d	750	—	—	6	By Depreciation	450	—	—					
						„ Balance c/d	300	—	—					
		£750	—	—						£750	—	—		
7	To Balance b/d	300	—	—										

gives a fairly equal charge against profits year by year. For the heavy depreciation during the earlier years is counterbalanced by the light repairs; and, in the later years, the increasing cost of repairs is offset by the decreasing charge for depreciation.

The rate per cent necessary to write off the diminishing or reducing value year by year is found by means of the following formula—

$$P \times \left(\frac{100 - r}{100} \right)^n = RV$$

where P denotes the principal, r the required

value is estimated to be £178; and that it is required to write off depreciation at a fixed rate on the diminishing or reducing value of the asset.

According to the formula, we have—

$$1000 \times \left(\frac{100 - r}{100} \right)^6 = 178$$

which, when reduced, gives us 25 per cent approximately.

The Ledger Account of the Machinery would appear as follows.

Dr.					MACHINERY					Cr.				
Year		£	s.	d.	Year		£	s.	d.			£	s.	d.
1	To Cash	1,000	—	—	1	By Depreciation	250	—	—			250	—	—
						„ Balance c/d	750	—	—			750	—	—
		£1,000	—	—								£1,000	—	—
2	To Balance b/d	750	—	—	2	By Depreciation	187	10	—			187	10	—
						„ Balance c/d	562	10	—			562	10	—
		£750	—	—								£750	—	—
3	To Balance b/d	562	10	—	3	By Depreciation	140	12	6			140	12	6
						„ Balance c/d	421	17	6			421	17	6
		£562	10	—								£562	10	—
	To Balance b/d	421	17	6	4	By Depreciation	105	9	5			105	9	5
						„ Balance c/d	316	8	1			316	8	1
		£421	17	6								£421	17	6
4	To Balance b/d	316	8	1	5	By Depreciation	79	2	—			79	2	—
						„ Balance c/d	237	6	1			237	6	1
		£316	8	1								£316	8	1
6	To Balance b/d	237	6	1	6	By Depreciation	59	6	1			59	6	1
						„ Balance c/d	178	—	—			178	—	—
		£237	6	1								£237	6	1
7	To Balance b/d	178	—	—										

There is an adjustment of 5d. in the last amount of depreciation; this is caused by fractions of a penny having been ignored in previous years.

Depreciation of Additions to an Asset

Owing to conflicting views on the question of how to deal with additions to an asset when writing off depreciation, no less than three different methods are met with in actual practice. The additions are—

1. *Ignored*, by writing off depreciation from the balance of the Asset Account as at the *beginning* of the year;

2. *Included*, by writing depreciation off the balance of the Asset as at the *end* of the year;

3. *Depreciated proportionately*, a machine purchased about the middle of the year being written down at *half* the annual rate, and so on.

By way of illustration, let us suppose that machinery is bought for £2,050; that additions are made in June of the second year to the amount of £250, and in March of the third year to the extent of £200; and that depreciation is written off at the rate of 10 per cent per annum

on the diminishing balance of the Plant and Machinery Account. The accounts of the three different methods would appear as shown on pages 278 and 279.

Each of these methods has its advocates; but the second method, in which a year's depreciation might be written off a machine that had been in use only three months, seems unreasonable. The third method seems quite logical in reasoning, but there are critics who object to it, and maintain that *no* depreciation should be written off any asset, until it has had at least a twelvemonth's wear.

Annuity Method

Both the former methods ignore interest on the capital outlay. Under the annuity system, however, the purchase of the asset is regarded as an investment of capital. Now, since this amount of capital, if placed elsewhere, could be made to yield a certain rate of interest,

EXAMPLE (1)

Dr.				PLANT AND MACHINERY				Cr.			
Year		£	s.	d.	Year		£	s.	d.		
1	To Cash	2,050	—	—	1	By Depreciation, 10% on £2050 .	205	—	—		
						„ Balance c/d	1,845	—	—		
		£2,050	—	—			£2,050	—	—		
2	To Balance b/d	1,845	—	—	2	By Depreciation, 10% on £1845 .	184	10	—		
	„ Cash	250	—	—		„ Balance c/d	1,910	10	—		
		£2,095	—	—			£2,095	—	—		
3	To Balance b/d	1,910	10	—	3	By Depreciation 10% on					
	„ Cash	200	—	—		£1910 10s.	191	1	—		
		£2,110	10	—		„ Balance c/d	1,919	9	—		
							£2,110	10	—		
4	To Balance b/d	1,919	9	—							

EXAMPLE (2)

Dr.				PLANT AND MACHINERY				Cr.			
Year		£	s.	d.	Year		£	s.	d.		
1	To Cash	2,050	—	—	1	By Depreciation, 10% on £2,050 .	205	—	—		
						„ Balance c/d	1,845	—	—		
		£2,050	—	—			£2,050	—	—		
2	To Balance b/d	1,845	—	—	2	By Depreciation, 10% on £2,095 .	209	10	—		
	„ Cash	250	—	—		„ Balance c/d	1,885	10	—		
		£2,095	—	—			£2,095	—	—		
3	To Balance b/d	1,885	10	—	3	By Depreciation, 10% on					
	„ Cash	200	—	—		£2,085 10s.	208	11	—		
		£2,085	10	—		„ Balance c/d	1,876	19	—		
							£2,085	10	—		
4	To Balance b/d	1,876	19	—							

it is considered quite equitable to debit the Asset Account with this fixed rate of interest, and to credit it to an Interest Receivable Account, as would be the case with an outside investment.

The asset and interest are then written down by equal annual instalments until finally extinguished. This method is used principally for short term leases, in which the outlay may be large, and where it is not intended to renew the lease at the expiration of its term. It is not so suitable for plant and machinery, as fresh calculations would have to be made each time there were any additions.

The objection raised to this method is that though it may be quite scientific, it results in an increasing charge against profits each year.

The depreciation that is debited remains constant; but the interest that is credited diminishes year by year owing, of course, to the diminishing capital outlay. If, under a special clause in the lease, dilapidations have to be provided for at the end of the term, this is best done by means of a Sinking Fund, which is explained and illustrated later on.

The amount to be written off yearly by the Annuity Method, i.e. *Principal + Interest* —

EXAMPLE (3)
PLANT AND MACHINERY

Dr.				Cr.			
Year		£	s. d.	Year		£	s. d.
1	To Cash	2,050	— —	1	By Depreciation, 10% on £2,050 .	205	— —
					„ Balance c/d	1,845	— —
		£2,050	— —			£2,050	— —
2	To Balance b/d	1,845	— —	2	By Depreciation—		
	„ Cash (June)	250	— —		10% on £1,845 .	184	10 —
					5% on £250 .	12	10 —
					„ Balance c/d	197	— —
		£2,095	— —			1,898	— —
						£2,095	— —
3	To Balance b/d	1,898	— —	3	By Depreciation—		
	„ Cash (March)	200	— —		10% on £1,898 .	189	16 —
					7½% on £200 .	15	— —
					„ Balance c/d	204	16 —
		£2,098	— —			1,893	4 —
						£2,098	— —
4	To Balance b/d	1,893	4 —				

Instalment, can be calculated from Tables based on the following formula for £1—

$$\frac{\text{Interest}}{\text{Compound Interest}^n} + \text{Interest},$$

where n = number of years.

The following Table will be found useful for ordinary book-keeping purposes—

TABLE I
AMOUNT REQUIRED TO WRITE OFF £1 BY THE ANNUITY METHOD

Years	3%	3½%	4%	4½%	5%
3	·353530	·356933	·360348	·363773	·367208
4	·269028	·272251	·275490	·278744	·282012
5	·218354	·221481	·224627	·227792	·230975
6	·184597	·187668	·190761	·193878	·197017
7	·160506	·163544	·166609	·169701	·172819
8	·142456	·145476	·148527	·151609	·154721
9	·128433	·131446	·134493	·137574	·140690
10	·117230	·120241	·123291	·126378	·129504

By way of illustration, let us suppose a lease is purchased for a term of seven years at a cost of £2,500, and that it is proposed to depreciate it by the Annuity Method, charging interest at the rate of 5 per cent per annum.

Reference to Table I shows that the amount to write off £1 in seven years at 5 per cent is ·172819. Multiplying this by 2,500 we get

£432 os. 11d. The Ledger Account of the lease will therefore appear as shown on the following page.

Depreciation Fund Method

By this method the Asset appears in the books always at cost. Each year, however, a fixed amount, called the Sinking Fund instalment, is charged to Profit and Loss Account. Each year, too, a corresponding amount of cash is invested in gilt-edged securities, the amount being such as will, during the lifetime of the asset, accumulate at compound interest to the sum required to replace the asset.

The object of investing cash each year and allowing it to accumulate is that, at the end of the period, the fund shall be a separate amount, and not have to be taken from the ordinary Bank balance. The forced withdrawal of a large sum of money from the Bank in order to replace the asset might seriously inconvenience the business, if not cripple it.

By realizing the Sinking Fund Investments, however, the money for replacing the asset becomes immediately available without touching the ordinary Bank balance. Thus, the financial position is not in any way affected, the money having been provided outside the business.

Although we often speak loosely of investing *profit*, it must be remembered that what is

Dr.					LEASE ACCOUNT					Cr.				
Year		£	s.	d.	Year		£	s.	d.					
1	To Cash	2,500	—	—	1	By Depreciation	432	—	11					
	„ Interest	125	—	—		„ Balance c/d	2,192	19	1					
		£2,625	—	—			£2,625	—	—					
2	To Balance b/d	2,192	19	1	2	By Depreciation	432	—	11					
	„ Interest	109	12	11		„ Balance c/d	1,870	11	1					
		£2,302	12	—			£2,302	12	—					
3	To Balance b/d	1,870	11	1	3	By Depreciation	432	—	11					
	„ Interest	93	10	7		„ Balance c/d	1,532	—	9					
		£1,964	1	8			£1,964	1	8					
4	To Balance b/d	1,532	—	9	4	By Depreciation	432	—	11					
	„ Interest	76	12	—		„ Balance c/d	1,176	11	10					
		£1,608	12	9			£1,608	12	9					
5	To Balance b/d	1,176	11	10	5	By Depreciation	432	—	11					
	„ Interest	58	16	7		„ Balance c/d	803	7	6					
		£1,235	8	5			£1,235	8	5					
6	To Balance b/d	803	7	6	6	By Depreciation	432	—	11					
	„ Interest	40	3	4		„ Balance c/d	411	9	11					
		£843	10	10			£843	10	10					
7	To Balance b/d	411	9	11	7	By Depreciation	432	1	5					
	„ Interest	20	11	6			£432	1	5					
		£432	1	5										

Owing to fractions of a penny having been neglected, there is a slight difference of 6d. to adjust in the last instalment of depreciation.

really done is to invest *cash* on account of profit. Profit is very often only a *paper* balance. For instance, a quantity of goods may be sold at a profit of £50, but if the goods are sold on credit, the profit will not be real or tangible until the debt has been paid. It is the overlooking of this important fact which sometimes causes difficulty in understanding the principle of the Sinking Fund Investment Account.

Many persons are puzzled by the *two* accounts, the Depreciation Fund Account, and the Depreciation Fund Investment Account. The sole object of the latter is to make the accumulated profits a *real* fund, instead of a mere paper balance as it would otherwise be.

At the end of the period, the investments will be realized. The cash received will be debited in the Cash Book: "*To Depreciation Fund Investment Account*," and posted to the credit

of this latter account, thus closing it. If the investments realize more, or less, than the book value, then an adjusting entry will be required debiting or crediting the difference to Profit and Loss Account, in order that the Investment Account may be closed. The Depreciation Fund Account itself is closed by transfer to the credit of the Asset Account, thus extinguishing the latter. The cash will then be in hand with which to purchase the new asset.

The Depreciation Fund Account is known by some other names: "*Amortization Fund Account*," "*Sinking Fund Account*," "*Redemption Fund Account*."

The first term is more suitable for the writing off of intangible expenditure, i.e. such as is not represented by assets, as Debenture Discount; and the last two terms are better for the repayment of loans or debentures. Depreciation

Fund Account is the best term to use in connection with the replacement of wasting assets.

The Sinking Fund amount is calculated from Tables based on the following formula—

$$\frac{\text{Interest}}{\text{Compound Interest}^n}$$

which gives us the amount to set aside yearly at a given rate of Interest to provide £1 at the end of n or the given number of years.

By way of illustration, let us suppose that £2,500 is paid for a lease for seven years; that it is desired to write this off, and also provide a similar sum for renewal at the expiration of the term. Reference to the Table shows that the amount required to be invested yearly at 5 per cent, in order to produce £1 at the end of

TABLE II
ANNUAL SINKING FUND INSTALMENTS TO PROVIDE £1

Years	3%	3½%	4%	4½%	5%
3	·323530	·321933	·320348	·318773	·317208
4	·239028	·237251	·235490	·233744	·232012
5	·188354	·186481	·184627	·182792	·180975
6	·154597	·152668	·150761	·148878	·147017
7	·130506	·128544	·126609	·124701	·122819
8	·112456	·110476	·108527	·106609	·104721
9	·098433	·096446	·094493	·092574	·090690
10	·087230	·085241	·083291	·081378	·079504

seven years, is ·122819. The amount required to produce £2,500 is, therefore, £·122819 × 2,500, which gives as £307 os. 11d.

The Ledger Accounts will appear as under—

Dr.				DEPRECIATION FUND ACCOUNT				Cr.			
Year		£	s. d.	Year		£	s. d.				
1	To Balance c/d	307	— 11	1	By Profit and Loss	307	— 11				
2	To Balance c/d	629	8 10	2	By Balance b/d	307	— 11				
					„ Cash (Interest)	15	7 —				
					„ Profit and Loss	307	— 11				
		£629	8 10			£629	8 10				
3	To Balance c/d	967	19 2	3	By Balance b/d	629	8 10				
					„ Cash (Interest)	31	9 5				
					„ Profit and Loss	307	— 11				
		£967	19 2			£967	19 2				
4	To Balance c/d	1,323	8 —	4	By Balance b/d	967	19 2				
					„ Cash (Interest)	48	7 11				
					„ Profit and Loss	307	— 11				
		£1,323	8 —			£1,323	8 —				
5	To Balance c/d	1,696	12 4	5	By Balance b/d	1,323	8 —				
					„ Cash (Interest)	66	3 5				
					„ Profit and Loss	307	— 11				
		£1,696	12 4			£1,696	12 4				
6	To Balance c/d	2,088	9 10	6	By Balance b/d	1,696	12 4				
					„ Cash (Interest)	84	16 7				
					„ Profit and Loss	307	— 11				
		£2,088	9 10			£2,088	9 10				
7	To Transfer to Lease A/c	2,500	— —	7	By Balance b/d	2,088	9 10				
					„ Cash (Interest)	104	8 6				
					„ Profit and Loss	307	1 8				
		£2,500	— —			£2,500	— —				

Owing to fractions of a penny having been ignored, there is a slight adjustment of 9d. in the last instalment from Profit and Loss.

Dr.					DEPRECIATION FUND INVESTMENT ACCOUNT					Cr.				
Year		£	s.	d.	Year		£	s.	d.					
1	To Cash	307	-	11	1	By Balance c/d	307	-	11					
2	To Balance b/d	307	-	11	2	By Balance c/d	629	8	10					
	„ Cash (Interest and Instalment)	322	7	11			£629	8	10					
		£629	8	10			£629	8	10					
3	To Balance b/d	629	8	10	3	By Balance c/d	967	19	2					
	„ Cash	338	10	4			£967	19	2					
		£967	19	2			£967	19	2					
4	To Balance b/d	967	19	2	4	By Balance c/d	1,323	8	-					
	„ Cash	355	8	10			£1,323	8	-					
		£1,323	8	-			£1,323	8	-					
5	To Balance b/d	1,323	8	-	5	By Balance c/d	1,696	12	4					
	„ Cash	373	4	4			£1,696	12	4					
		£1,696	12	4			£1,696	12	4					
6	To Balance b/d	1,696	12	4	6	By Balance c/d	2,088	9	10					
	„ Cash	391	17	6			£2,088	9	10					
		£2,088	9	10			£2,088	9	10					
7	To Balance b/d	2,088	9	10	7	By Cash	2,500	-	-					
	„ Cash	411	10	2			£2,500	-	-					
		£2,500	-	-			£2,500	-	-					

At the end of the last year, the Cash instalment will not be invested, but will be added to the Investment Account money, so as to make up the full amount required to purchase the new lease. In the above example the investments have been taken at par, and income tax has been ignored for the sake of simplicity. In practice, however, interest on investments would be received *less tax*.

To provide for the amount lost by deduction of income tax, a similar sum is debited each year to Profit and Loss Account, and credited

to the Depreciation Fund Account. In practice, too, the fund would probably be invested in various securities, and would be represented in the Ledger by several Investment Accounts amounting in total to the above.

The Lease Account and the Depreciation Fund Investment Account will both appear on the assets side of the Balance Sheet until the end of the period. The Depreciation Fund Account will appear on the liabilities side; it may, however, be shown on the assets side as a deduction from the Lease Account.

Dr.				LEASE ACCOUNT				Cr.			
Year		£	s.	d.	Year		£	s.	d.		
1	To Cash	2,500	-	-	7	By Transfer from Depreciation Fund Account	2,500	-	-		
		£2,500	-	-			£2,500	-	-		

The entries in the subsidiary books and on the Balance Sheet will be as follows—

JOURNAL						Dr.			Cr.		
Year						£	s.	d.	£	s.	d.
1	Profit and Loss Account	.	.	.	.	307	—	11	307	—	11
	To Depreciation Fund Account	.	.	.	.		
	Amount of annual Instalment	.	.	.	.		

and so on for seven years.

CASH BOOK						Dr.			Cr.		
Date						Receipts			Bank		
Year						£	s.	d.	£	s.	d.
2	To Depreciation Fund Account (Interest on the First Year's Instalment)	.	.	.	.	15	7	—			

and similar entries for other years.

CASH BOOK						Dr.			Cr.		
Date						Payments			Bank		
Year						£	s.	d.	£	s.	d.
1	By Depreciation Fund Investment Account (Investment of Cash equal to First Year's Instalment)	.	.	.	.	307	—	11			
2	„ Depreciation Fund Investment Account (Investment of Cash equal to Second Year's Instalment, plus Interest on First Year's Instalment)	.	.	.	.	322	7	11			

and similar entries for other years.

BALANCE SHEET											
LIABILITIES						ASSETS					
(Year 1)	Depreciation Fund Account	.	307	—	11	(Year 1)	Depreciation Fund Investment Account	.	307	—	11
(Year 2)	Depreciation Fund Account	.	629	8	10	(Year 2)	Depreciation Fund Investment Account	.	629	8	10

In actual practice, the Depreciation Fund Account on the Balance Sheet will not always agree with the amount of the Depreciation Fund Investment Account. This is because the instalment is charged against profits at the end of the year (say 31st Dec.), but the corresponding investment of cash may not take place until the first month (say Jan.) of the next year. In the worked example the dates have, for the sake of clearness, been made to correspond.

Insurance Policy Method

In this method, an insurance policy is taken out for the amount of money required to

replace the asset at the end of its life. The procedure is somewhat similar to that under the Depreciation Fund Method, except that the cash, instead of being invested in securities, is paid away in premiums to the insurance company.

The company guarantee to provide the full capital sum, and there is, therefore, no risk of getting a much smaller sum as there is in the case of investments, the market price of which fluctuates considerably. This security of the capital sum counterbalances the lower rate of interest which the insurance company allows.

The Lease Account remains open in the books

until the end of the term, and figures each year as an asset on the Balance Sheet. The entries in the books vary according as to whether a Policy Account is opened or not.

When a Policy Account is not opened, the entries will be—

1. For the purchase of the Lease—

By Lease, on the *Cr.* side of the Cash Book.

2. For the annual premiums paid to the insurance company—

By Lease Insurance, on *Cr.* side of Cash Book.

3. For charging the insurance (the equivalent of depreciation) against Revenue—

JOURNAL

Profit and Loss	Dr.
To Lease Insurance	Cr.

When the policy matures, the cash received will be debited in the Cash Book, and posted to the credit of the Lease Account, thus closing it. The necessary money will now be in hand with which to purchase the new lease (or other asset as the case may be).

When a Policy Account is opened, the premium is debited to a Lease Policy Account, and is regarded as an investment, increasing each year by the amount of the interest. The entries will be—

1. For the purchase of the Lease—

By Lease on the *Cr.* side of the Cash Book.

2. For the annual premiums paid to the insurance company—

By Lease Policy Account on *Cr.* side of Cash Book.

3. For charging the insurance (the equivalent of depreciation) against Revenue.

JOURNAL

Profit and Loss	Dr.
To Lease Redemption Fund A/c	Cr.

4. For debiting the interest on balance of Lease Policy Account—

JOURNAL

Lease Policy A/c	Dr.
To Lease Redemption Fund A/c	Cr.

When the policy matures, the cash received will be debited in the Cash Book, "*To Lease Policy Account*," and posted to the credit of the latter, thus extinguishing it. The Lease Redemption Fund Account is closed by transfer to the Lease Account, thus extinguishing the latter. The cash is now in hand with which to purchase

the new lease. Until the end of the term, the Lease Account, and the Lease Policy Account, will appear on the assets side of the Balance Sheet. The Lease Redemption Fund Account will appear on the liabilities side of the Balance Sheet, but may appear, if desired, on the assets side as a deduction from the lease.

The view is held, by some accountants, that the Policy Account should always be kept at surrender value. In such a case, the entries will be the same as the foregoing, except that no interest will be charged, and that an adjusting entry will be required each year to raise or reduce the Policy Account to surrender value.

In the early years, the surrender value will be less than the amount paid for premiums; it will then be necessary to credit Lease Policy Account, and debit Lease Redemption Fund Account, with the difference.

As the surrender value increases year by year, the surrender value will eventually become greater than the amount of premiums paid, and then it will be necessary to reverse the former entry. That is, at the end of the year, to raise the Policy Account to its full value, the following entry will be necessary.

JOURNAL

Lease Policy A/c	Dr.
To Lease Redemption Fund A/c	Cr.

Other accountants hold the view, however, that, as there is no intention of discontinuing the policy, there is no more necessity for keeping the policy at surrender value than there is to keep new machinery at break-up value. They characterize this method as "over-prudent," and think nothing could justify it, except a very long-term policy whose continued maintenance was extremely doubtful.

The rate of interest taken into consideration varies between $2\frac{1}{2}$ and 3 per cent. It is debited to the Lease Policy Account, and credited to the Lease Redemption Fund Account. Capital Redemption Policies, as appropriate investments for Depreciation and Sinking Funds, are coming more and more into favour; as, although there is a much lower rate of interest, there is no risk of Capital depreciation like there is with ordinary investments.

Revaluation Method

This method involves the process of stock-taking and valuing. It is used for those assets which cannot be depreciated according to any fixed rule.

Such are live stock, cattle, horses, loose tools, patterns, models, moulds, trade marks, investments, copyrights, casks, bottles, and packages. With many of these assets there are special considerations which must be taken into account. If the difference disclosed by revaluation is a loss, it is credited to the Asset Account, and debited to Profit and Loss Account; if, however, such difference is an appreciation, it is debited to the Asset Account, and credited to Profit and Loss Account.*

Such appreciations are rather unusual, although quite possible. In some cases, e.g. investments, the appreciation or depreciation is not dealt with in the Asset Account, but placed to a special Reserve Account, as such a difference may be only temporary and not permanent.

In the case of loose tools, especially in engineering firms where they make their own loose

Account; but all repairs and renewals are debited to the Depreciation Account.

It is difficult to discriminate between "repairs" and "renewals" at times; and although "renewals" may safely be charged to capital where adequate depreciation is being provided, yet there may be a temptation to do so when it may not be justified. This method obviates any such difficulty.

The Depreciation Account, which must always be in *credit*, shows the *net* amount set aside for renewals and depreciation. A *debit* balance in the account would indicate that insufficient provision had been made. Even where this method is adopted, it is advisable for assets to be revalued from time to time, as it may be found necessary to vary the amount set aside annually.

The Accounts (below and on p. 286) will illustrate the method of working explained above—

Dr.		PLANT AND MACHINERY					Cr.		
Year		£	s.	d.	Year		£	s.	d.
1	To Cash	5,000	—	—					
2	„ Cash (Additions)	1,500	—	—					
		6,500	—	—					
3	„ Cash (Additions)	1,000	—	—					
		7,500	—	—					

tools, it is customary not only to revalue the tools, but also to treat stocks of tools like Stock-in-trade, that is, to enter them in the Trading Account, the stock at start being debited, and the stock at finish being credited.

The cost of making the loose tools is included in the Materials and in the Wages Accounts, and as both of these accounts are in the Trading Account, any depreciation or appreciation in the stock of loose tools is a proper charge or credit to the same account.

The disadvantage attaching to this method of providing for depreciation is that, although the asset is rendering similar service to the business each year, there is a very uneven charge against Revenue year by year in respect of that service.

Charging One Sum to Cover Repairs, Renewals, and Depreciation

Under the above method a single amount is charged to Profit and Loss annually in respect of repairs, renewals, and depreciation. Any additions are debited to Plant and Machinery

Rates of Depreciation

Corresponding with the variety of assets there is also a variety of rates employed to depreciate those assets. Although the following are the rates of depreciation usually adopted, yet, in some cases, special circumstances may have to be taken into consideration, which may have the effect of either raising or lowering the rates. Except where otherwise stated, such rates are calculated on diminishing balances, while normal conditions and hours of working are also assumed—

Rolling Stock—

Locomotives, 10 per cent.

Wagons (life about 15 years), $7\frac{1}{2}$ per cent.

Engines (movable) 10 per cent; (*fixed*) $7\frac{1}{2}$ per cent.

Boilers (*high pressure*) 15 per cent; (*low pressure*) 10 per cent.

Driving Gear, 5 per cent to $7\frac{1}{2}$ per cent.

Freehold Land and Buildings, $2\frac{1}{2}$ per cent to 5 per cent.

Plant and Machinery, 5 per cent to 10 per cent.

Dr.					DEPRECIATION ACCOUNT					Cr.				
Year		£	s.	d.	Year		£	s.	d.					
2	To Repairs and Renewals	26	10	6	2	By Profit and Loss, 5% on £5,000	250	-	-					
	„ Balance c/d	223	9	6										
		£250	-	-			£250	-	-					
3	To Repairs and Renewals	48	15	6	3	By Balance b/d	223	9	6					
	„ Balance c/d	499	14	-		„ Profit and Loss, 5% on £6,500	325	-	-					
		£548	9	6			£548	9	6					
4	To Repairs and Renewals	103	11	10	4	By Balance b/d	499	14	-					
	„ Balance c/d	771	2	2		„ Profit and Loss, 5% on £7,500	375	-	-					
		£874	14	-			£874	14	-					
					5	By Balance b/d	771	2	2					

The above Account is also called a "Maintenance Reserve Account."

Furniture, Fixtures, and Fittings, 5 per cent to $7\frac{1}{2}$ per cent.

Carts and Vans, 10 per cent to 15 per cent.

Casks (in breweries, distilleries, oil refineries), 10 per cent to 20 per cent, or revalued yearly.

Patents (life 16 years), $\frac{1}{16}$ th of the cost each year. As with trade marks, there is sometimes a residual value in the form of goodwill, caused by the trade these things have created.

Ships (life about 20 years), 5 per cent.

Blast Furnaces, Gas Retorts, and Chemical Plant (subject to rapid depreciation and constant repair with little or no residual value) the original cost divided by the number of years possible use.

Reserves

Another kind of depreciation occurs in connection with the debts owing to a business, although the loss and the consequent provision for it are not called depreciation, but the effect is the same. For it will be seen that, speaking generally, the longer a debt remains unpaid after the period of credit has expired, the less likely is it to be paid. In view of this the usual procedure in the business world is to make a Reserve.

A Reserve is a *charge against* profits before arriving at the actual net profit, in order to provide for some expected loss or liability, as a Bad Debt Reserve, Reserve for Audit Fee, etc. In some cases, however, it is an *addition* to the profits, as a Reserve for Discount on Creditors, Reserve for Rent Receivable, etc.

Bad Debts Reserve

A Bad Debts Reserve is a charge made against profits in order to provide for possible Bad Debts.

The amount of the Bad Debts Reserve may be the total of a specially compiled list of doubtful debts, or it may be merely a fixed percentage on the Sundry Debtors. In some cases, however, it is a small percentage of the total sales, generally $\frac{1}{2}$ or 1 per cent.

Objection is made to the turnover method, on the ground that the Bad Debts stand in direct relation to the Debtors, and not to the turnover. The total sales might include a number of *cash* transactions, and even if the percentage was based only on *credit* sales, some of them might be paid for at the time of making the Reserve. The answer to this objection is that, in many businesses, the Bad Debts may be regarded as in uniform proportion to the amount of trade actually done.

Object of Making the Reserve

The object of making the Bad Debts Reserve is twofold: (1) to provide for all possible losses in respect of such debts; (2) to show the debtors on the Balance Sheet at approximately their correct value. It is obviously misleading to show, say, £4,000 worth of debtors as an asset, if 5 per cent, i.e. £200, are possible Bad Debts. For this reason, therefore, the Bad Debts Reserve, although a credit balance, is not shown on the liabilities side of the Balance Sheet, but appears on the assets side as a deduction from the debtors themselves.

Alternative Methods of Creating the Reserve

The methods in use with respect to the construction of the Bad Debts Reserve are as follows—

1. The amount of the Reserve is debited to the Bad Debts Account, and credited to a Bad Debts Reserve Account.

2. The amount of the Reserve is debited direct to Profit and Loss Account, and credited to a Bad Debts Reserve Account.

The objection raised to the first method is that the amount is not an *actual* bad debt, but only a *possible* bad debt; and therefore the Bad Debts Account shows a fictitious total, thus preventing comparisons of different years.

Alternative Methods of Dealing with the Bad Debts Account

There are two methods in use of dealing with the Bad Debts themselves—

1. The Bad Debts are transferred to the Reserve made specially for them, and the balance of the Bad Debts Reserve is then adjusted to the amount required for the next year.

2. The Bad Debts are transferred direct to

Profit and Loss Account, thus entirely ignoring the Bad Debts Reserve Account. The amount of the Reserve is then adjusted to the figure required for the next year, i.e. some is taken away if too large, or more is added if not large enough.

Worked Examples

Four cases arise in connection with the Bad Debts Reserve. The book-keeper must know how to perform the following: (1) to open a Reserve; (2) to close a Reserve; (3) to increase an existing Reserve; (4) to decrease an existing Reserve.

Case (1) has already been dealt with; and case (2) would be the opposite, the entries having to be reversed. Cases (3) and (4) remain to be illustrated. The examples will be worked both ways, the entries in the Journal, Ledger, Profit and Loss Account, and Balance Sheet being fully shown.

To illustrate Case (3), let us suppose that the Sundry Debtors amount to £2,875 16s. 10d.; that an old Bad Debts Reserve of £95 15s. 6d. still exists; that a new Bad Debts Reserve of 5 per cent of the debtors is now required; and that the actual Bad Debts are £82 14s. 8d.

FIRST METHOD

JOURNAL

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
19..							
Dec. 31	Bad Debts Reserve	82	14	8			
	To Bad Debts				82	14	8
	Transfer of balance.						
31	Bad Debts	130	15	—			
	To Bad Debts Reserve				130	15	—
	Additional amount required to raise balance of Reserve from £13 0s. 10d. to £143 15s. 10d., the new Reserve.						
31	Profit and Loss	130	15	—			
	To Bad Debts				130	15	—
	Transfer of balance.						

LEDGER

BAD DEBTS

Dr.				Cr.	
		£	s.	d.	
19..					
Dec. 31	To Sundry Debtors	82	14	8	19..
					Dec. 31
31	To Bad Debts Reserve	130	15	—	By Bad Debts Reserve
					By Profit and Loss Account

Dr.		BAD DEBTS RESERVE						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Dec. 31	To Bad Debts		82	14	8	Jan. 1	By Balance b/d	95	15	6
31	„ Balance c/d		143	15	10	Dec. 31	„ Bad Debts	130	15	—
			£226	10	6			£226	10	6
						Jan. 1	By Balance b/d	143	15	10

Dr.		PROFIT AND LOSS ACCOUNT						Cr.		
			£	s.	d.			£	s.	d.
	To Bad Debts							130	15	—

BALANCE SHEET										
ASSETS							£	s.	d.	
Sundry Debtors							2,875	16	10	
Less Bad Debts Reserve							143	15	10	
							2,732	1	—	

ALTERNATIVE METHOD

Dr.		JOURNAL						Cr.		
19..			£	s.	d.			£	s.	d.
Dec. 31	Profit and Loss		82	14	8			82	14	8
	To Bad Debts									
	Transfer of balance									
31	Profit and Loss		48	—	4			48	—	4
	To Bad Debts Reserve									
	Additional amount required to raise Reserve from £95 15s. 6d to £143 15s. 10d.									

LEDGER

Dr.		BAD DEBTS						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Dec. 31	To Sundry Debtors		82	14	8	Dec. 31	By Profit and Loss	82	14	8

Dr.		BAD DEBTS RESERVE						Cr.		
19..			£	s.	d.	19..		£	s.	d.
Dec. 31	To Balance c/d		143	15	10	Jan. 1	By Balance b/d	95	15	6
						Dec. 31	„ Profit and Loss	48	—	4
			£143	15	10			£143	15	10
						Jan. 1	By Balance b/d	143	15	10

Dr.		PROFIT AND LOSS ACCOUNT						Cr.		
			£	s.	d.			£	s.	d.
	To Bad Debts							82	14	8
	„ Bad Debts Reserve, 5% on £2875 16s. 10d		143	15	10					
	Less Old Reserve		95	15	6			48	—	4

BALANCE SHEET

						ASSETS					
						£	s.	d.	£	s.	d.
Sundry Debtors						2,875	16	10			
Less Bad Debts Reserve						143	15	10	2,732	1	—

To illustrate Case (4) let us suppose that the Sundry Debtors amount to £2,657 17s. 9d.; that an old Bad Debts Reserve of £220 11s. 8d. still exists; and that a new Reserve of 5 per cent of the debtors is now required.

FIRST METHOD

JOURNAL

		Dr			Cr.		
19..		£	s.	d.	£	s.	d.
Dec. 31	Bad Debts Reserve	62	10	6			
	To Bad Debts				62	10	6
	Transfer of balance						
31	Bad Debts Reserve	25	3	3			
	To Bad Debts				25	3	3
	Amount credited back to Profit and Loss A/c to reduce balance of Reserve from £158 1s. 2d. to £132 17s. 11d.						
31	Bad Debts	25	3	3			
	To Profit and Loss				25	3	3
	Transfer of balance						

LEDGER
BAD DEBTS

Dr.					Cr.				
19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Sundry Debtors	62	10	6	Dec. 31	By Bad Debts Reserve	62	10	6
31	„ Profit and Loss	25	3	3	31	„ Bad Debts Reserve	25	3	3
		£87	13	9			£87	13	9

BAD DEBTS RESERVE

Dr.					Cr.				
19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Bad Debts	62	10	6	Jan. 1	By Balance b/d	220	11	8
31	„ Bad Debts	25	3	3					
31	„ Balance c/d	132	17	11					
		£220	11	8			£220	11	8
					Jan. 1	By Balance b/d	132	17	11

PROFIT AND LOSS ACCOUNT

Dr.					Cr.				
		£	s.	d.			£	s.	d.
						By Bad Debts	25	3	3

BALANCE SHEET

ASSETS							£	s.	d.	£	s.	d.
Sundry Debtors	.	.	.	.	.	.	2,657	17	9			
Less Bad Debts Reserve	.	.	.	.	.	.	132	17	11	2,524	19	10

ALTERNATIVE METHOD
JOURNAL

							Dr.			Cr.		
19..							£	s.	d.	£	s.	d.
Dec. 31	Profit and Loss	.	.	.	.	.	62	10	6			
	To Bad Debts	.	.	.	.	.				62	10	6
	Transfer of balance.	.	.	.	.	.	
31	Bad Debts Reserve	.	.	.	.	.	87	13	9			
	To Profit and Loss	.	.	.	.	.				87	13	9
	Amount credited back to reduce Reserve from £220 11s 8d. to £132 17s 11d	.	.	.	.	.	

LEDGER
BAD DEBTS

Dr.							Cr.					
19..							£	s.	d.	19..		
Dec. 31	To Sundry Debtors	.	.	.	.	.	62	10	6	Dec. 31	By Profit and Loss	.
												62 10 6

BAD DEBTS RESERVE

Dr.							Cr.					
19..							£	s.	d.	19..		
Dec. 31	To Profit and Loss	.	.	.	.	.	87	13	9	Jan. 1	By Balance b/d	.
31	„ Balance c/d	.	.	.	.	.	132	17	11			220 11 8
							£220	11	8			£220 11 8
										Jan. 1	By Balance b/d	.
												132 17 11

PROFIT AND LOSS ACCOUNT

Dr.							Cr.					
							£	s.	d.		£	s.
	To Bad Debts	.	.	.	.	.	62	10	6			
										By Bad Debts Reserve—		
										Old Reserve	220	11 8
										Less New	132	17 11
											87	13 9

BALANCE SHEET

ASSETS							£	s.	d.	£	s.	d.
Sundry Debtors	.	.	.	.	.	.	2,657	17	9			
Less Bad Debts Reserve	.	.	.	.	.	.	132	17	11	2,524	19	10

Reserves for Discount

In addition to making provision for possible loss by bad debts, business men also make provision for future discounts allowed, and less frequently, for discounts receivable. The object of making Reserves for Discount is that the

debtors and creditors shall appear on the Balance Sheet at approximately their correct value, as it is certainly misleading to overstate either debtors or creditors.

Strong objections are raised against this practice, on the ground that Discounts are really a financial matter, i.e. dependent on the accounts being received or paid within a stipulated time. It is, therefore, urged that such Discounts should not be anticipated, but should appear in the same period of account as the receipt or payment of the debts themselves.

This argument overlooks the fact that the profit on the Sales has been taken credit for in anticipation; for the profit cannot be held to be really made until the debt has actually been paid. Provision for Discount on Debtors is, therefore, in effect, a reduction of such anticipated profit to the net figures.

Methods of Calculating and Making the Reserves

The Discount Reserves may be the amounts of specially compiled lists of Discounts Allowable and Discounts Receivable; but, generally speaking, they are merely fixed percentages on the amount of the outstanding debtors and creditors. The old reserves are year by year adjusted to the new totals of debtors and creditors respectively. The method of treatment is very similar to that of Reserves for Bad Debts.

The Reserves themselves are made either by direct debit and credit to Profit and Loss Account, or by debit and credit to their corresponding Discount Accounts, and subsequent transfer to Profit and Loss Account of the balance of such accounts.

Reserve for Discount on Debtors

This is a charge against profits, to provide

for an expected loss on debtors' balances through discount. Where a provision is also made for possible Bad Debts, the percentage for Discount is calculated only on the *good* debtors, i.e. those expected to pay. Such Discount Reserve is, therefore, calculated on the debtors *after* deduction of the Bad Debts Reserve. There is no object in reserving for a debt to be bad, and then at the same time reserving for discount on it; it is merely making *excessive* provision, which is certainly not good accounting.

Since one of the objects of making the Discount Reserve is to prevent the debtors being overstated, on the Balance Sheet, therefore, the Discount Reserve, although a *credit* balance, will be shown on the *assets* side, as a *deduction* from the debtors themselves.

Reserve for Discount on Creditors

This is an addition to the profits, in anticipation of the discounts which will be received on payment of the creditors' accounts.

One of the objects of making the Discount Reserve is to prevent the creditors being overstated; on the Balance Sheet, therefore, the Discount Reserve, although a *debit* balance, will be shown on the *liabilities* side, as a deduction from the creditors themselves.

Worked Example of Reserve for Discount on Debtors

By way of illustration, let us suppose that the Sundry Debtors at the end of the year are £3,651 7s. 3d.; that the Discounts Allowed amount to £128 16s. 7d.; that an old Discount Reserve of £142 6s. 4d. still exists; that a Bad Debts Reserve of 5 per cent is required, and also a Discount Reserve of 5 per cent. The Journal, Ledger, Profit and Loss, and Balance Sheet entries will be as follows—

		FIRST METHOD			JOURNAL			Dr			Cr.		
								£	s.	d.	£	s.	d.
19..													
Dec. 31	Reserve for Discount on Debtors	.	.	.	.	.	.	128	16	7			
	To Discounts Allowed	.	.	.	.	.	.				128	16	7
	Transfer of balance.												
31	Discounts Allowed	.	.	.	.	.	.	159	19	1			
	To Reserve for Discounts on Debtors	.	.	.	.	.	.				159	19	1
	Additional amount required to raise the balance of the Reserve from £13 9s. 9d. to £173 8s. 10d.												
31	Profit and Loss	.	.	.	.	.	.	159	19	1			
	To Discounts Allowed	.	.	.	.	.	.				159	19	1
	Transfer of balance.												

BOOK-KEEPING AND OFFICE WORK

LEDGER

Dr.			DISCOUNTS ALLOWED						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Dec. 31	To Sundries		128	16	7	Dec. 31	By Reserve for Discount on Debtors		128	16	7
31	„ Reserve for Discount on Debtors		159	19	1	31	„ Profit and Loss		159	19	1
			£288	15	8				£288	15	8

Dr.		RESERVE FOR DISCOUNT ON DEBTORS										Cr.	
19..		£ s d.					19..		£ s d.				
Dec	31	To Discounts Allowed	128	16	7	Jan.	1	By Balance b/d	142	6	4		
	31	„ Balance c/d	173	8	10	Dec.	31	„ Discounts Allowed	159	19	1		
			£302	5	5				£302	5	5		
						Dec.	31	By Balance b/d	173	8	10		

Dr.		PROFIT AND LOSS ACCOUNT						Cr.	
			£	s.	d.		£	s.	d.
To Discounts Allowed							159	19	1

BALANCE SHEET

ASSETS			£	s.	d.	£	s.	d.
Sundry Debtors			3,651	7	3			
Less Bad Debts Reserve			182	11	4			
„ Discount Reserve			3,468	15	11			
			173	8	10	3295	7	1

ALTERNATIVE METHOD

JOURNAL

JOURNAL						Dr.		Cr.	
19..			£	s.	d.	£	s.	d.	
Dec. 31	Profit and Loss		128	16	7				
	To Discounts Allowed					128	16	7	
	Transfer of balance.								
31	Profit and Loss		31	2	6				
	To Reserve for Discount on Debtors					31	2	6	
	Additional amount required to raise the Reserve from £142 6s. 4d. to £173 8s. 10d.								

LEDGER

Dr.		DISCOUNTS ALLOWED						Cr.		
19..							19..			
Dec. 31	To Sundries				£	s.	d.	Dec. 31	By Profit and Loss	
					128	16	7			128 16 7

BOOK-KEEPING AND OFFICE WORK

LEDGER

Dr.		DISCOUNTS RECEIVED						Cr.	
19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Reserve for Discount on Creditors	132	11	5	Dec. 31	By Sundries	132	11	5
31	„ Profit and Loss	135	1	3	31	„ Reserve for Discount on Creditors	135	1	3
		<u>£267</u>	<u>12</u>	<u>8</u>			<u>£267</u>	<u>12</u>	<u>8</u>

Dr.		RESERVE FOR DISCOUNT ON CREDITORS						Cr.	
19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance b/d	176	6	10	Dec. 31	By Discounts Received	132	11	5
Dec. 31	„ Discounts Received	135	1	3	31	„ Balance c/d	178	16	8
		<u>£311</u>	<u>8</u>	<u>1</u>			<u>£311</u>	<u>8</u>	<u>1</u>
Jan. 1	To Balance b/d	178	16	8					

Dr.		PROFIT AND LOSS ACCOUNT						Cr.	
		£	s.	d.			£	s.	d.
	By Discounts Received						135	1	3

BALANCE SHEET

LIABILITIES									
		£	s.	d.	£	s.	d.		
Sundry Creditors		3,576	12	6					
Less Discount Reserve		178	16	8					
					3,397	15	10		

ALTERNATIVE METHOD

		JOURNAL			Dr.			Cr.		
		£	s.	d.	£	s.	d.			
19..										
Dec. 31	Discounts Received	132	11	5						
	To Profit and Loss				132	11	5			
	Transfer of balance.									
31	Reserve for Discounts on Creditors	2	9	10						
	To Profit and Loss				2	9	10			
	Additional amount required to raise the Reserve from £176 6s. 10d. to £178 16s. 8d.									

LEDGER

Dr.		DISCOUNTS RECEIVED						Cr.	
19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Profit and Loss	132	11	5	Dec. 31	By Sundries	132	11	5

Dr			RESERVE FOR DISCOUNT ON CREDITORS						Cr.		
19..			£	s.	d.	19..			£	s.	d.
Jan. 1	To Balance b/d .		176	6	10	Dec. 31	By Balance c/d .		178	16	8
Dec. 31	„ Profit and Loss .		2	9	10						
			£178	16	8				£178	16	8
Jan. 1	To Balance b/d .		178	16	8						

			PROFIT AND LOSS ACCOUNT			Cr.		
			£	s.	d.	£	s.	d.
By Discounts Received						132	11	5
Reserve for Discount on Creditors			178	16	8			
Less Old Reserve			176	6	10			
						2	9	10

			BALANCE SHEET					
			£	s.	d.	£	s.	d.
Sundry Creditors	LIABILITIES		3,576	12	6			
Less Discount Reserve			178	16	8	3,397	15	10

Repairs and Renewals Reserve

Besides being used for an estimated loss, reserves may be created for the purpose of equalizing or "evening out" any charge against revenue. It is common knowledge that Repairs and Renewals vary very considerably in amount year by year with respect to machinery and plant, and even with other assets. The consequence is that, if such repairs are merely charged to Profit and Loss year by year, Revenue gets charged each year with very unequal sums.

To avoid this, Profit and Loss is debited each year with a fixed amount, which is credited to a Repairs and Renewals Reserve Account. All repairs and renewals are charged to a Repairs Account; but this account is closed, at balancing time, to the Reserve Account instead of to Profit and Loss Account.

The balance of the Repairs and Renewals Reserve Account is carried each year to the Balance Sheet. Should the expenditure exceed the amount of the Reserve, a further provision would have to be made, i.e. the fixed annual charge would have to be increased. Per contra, also, if the fixed annual charge was found to be largely in excess of actual expenditure, it could be correspondingly reduced.

A Repairs and Renewals Reserve is also called a "Repairs Equalization Reserve,"

because it *equalizes* the charges against Revenue for repairs. It is also known as a "Maintenance Reserve," because it is used for the purpose of *maintaining* the assets in an efficient condition for earning income. Unfortunately, however, these terms have different meanings when used by different writers.

A Maintenance Reserve often includes provision for depreciation, as well as repairs and renewals. Again, the terms "repairs," "renewals," and "replacements" have not always the same precise signification. The supplying of fresh parts for those which are worn out is generally called a "renewal"; but if the parts are "improved" parts, it is also called a "replacement"; while "replacement" is also the term used by other writers to denote the provision of an entirely new machine (or other asset) in place of one which has been discarded.

Worked Example

By way of illustration, let us suppose that it is decided to create a Repairs and Renewals Reserve by charging Profit and Loss annually with the sum of £160; that the Repairs for the subsequent years are: (2) £112 12s. 6d.; (3) £138 16s. 4d.; (4) £187 5s. 9d.; (5) £196 11s. 3d. The Journal, Ledger, and Balance Sheet entries would be as follows.

JOURNAL			Dr.			Cr.		
Year			£	s.	d.	£	s.	d.
1	Profit and Loss Account		160	—	—			
	To Repairs and Renewals Reserve Account					160	—	—
	Annual provision for maintenance.							
2	Repairs and Renewals Reserve Account		112	12	6			
	To Repairs Account					112	12	6
	Transfer of balance.							
	Profit and Loss Account		160	—	—			
	To Repairs and Renewals Reserve Account					160	—	—
	Annual provision for maintenance.							
3	Repairs and Renewals Reserve Account		138	16	4			
	To Repairs Account					138	16	4
	Transfer of balance.							
	Profit and Loss Account		160	—	—			
	To Repairs and Renewals Reserve Account					160	—	—
	Annual provision for maintenance.							
4	Repairs and Renewals Reserve Account		187	5	9			
	To Repairs Account					187	5	9
	Transfer of balance.							
	Profit and Loss Account		160	—	—			
	To Repairs and Renewals Reserve Account					160	—	—
	Annual provision for maintenance.							
5	Repairs and Renewals Reserve Account		196	11	3			
	To Repairs Account					196	11	3
	Transfer of balance.							
	Profit and Loss Account		160	—	—			
	To Repairs and Renewals Reserve Account					160	—	—
	Annual provision for maintenance.							

LEDGER											
Dr.			REPAIRS ACCOUNT						Cr.		
Year			£	s.	d.	Year			£	s.	d.
2	To Cash		112	12	6	2	By Repairs and Renewals Reserve		112	12	6
3	„ Cash		138	16	4	3	„ Repairs and Renewals Reserve		138	16	4
4	„ Cash		187	5	9	4	„ Repairs and Renewals Reserve		187	5	9
5	„ Cash		196	11	3	5	„ Repairs and Renewals Reserve		196	11	3

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Dr.

REPAIRS AND RENEWALS RESERVE ACCOUNT

Cr.

Year		£	s.	d.	Year		£	s.	d.
1	To Balance c/d	160	-	-	1	By Profit and Loss	160	-	-
2	To Repairs Account	112	12	6	2	By Balance b/d	160	-	-
	„ Balance c/d	207	7	6		„ Profit and Loss	160	-	-
		£320	-	-			£320	-	-
3	To Repairs Account	138	16	4	3	By Balance b/d	207	7	6
	„ Balance c/d	228	11	2		„ Profit and Loss	160	-	-
		£367	7	6			£367	7	6
4	To Repairs Account	187	5	9	4	By Balance b/d	228	11	2
	„ Balance c/d	201	5	5		„ Profit and Loss	160	-	-
		£388	11	2			£388	11	2
5	To Repairs Account	196	11	3	5	By Balance b/d	201	5	5
	„ Balance c/d	164	14	2		„ Profit and Loss	160	-	-
		£361	5	5			£361	5	5
					6	By Balance b/d	164	14	2

BALANCE SHEET (AT END OF YEAR)

Year	LIABILITIES	£	s.	d.	£	s.	d.
1	Repairs and Renewals Reserve Account				160	-	-
2	Repairs and Renewals Reserve Account				207	7	6
3	Repairs and Renewals Reserve Account				228	11	2
4	Repairs and Renewals Reserve Account				201	5	5
5	Repairs and Renewals Reserve Account				164	14	2

CHAPTER XXII

THE BALANCE SHEET

A BALANCE Sheet is generally defined as a statement, prepared from double-entry books at the end of each trading or financial period, setting forth the various assets and liabilities of the business or undertaking as at the date of such statement. It is also defined as a classified summary of the balances remaining in a Ledger after the preparation of a Trading and Profit and Loss Account.

Debit and credit balances often exist in a Ledger, which cannot strictly speaking be classified as either assets or liabilities; yet they have, at balancing time, to be included in the Balance Sheet; whence we get the alternative definition of the term "Balance Sheet."

Again a Balance Sheet is sometimes described as a summary of assets and liabilities, including a statement of Profit and Loss. Such description, however, would apply only to a joint stock company Balance Sheet, in which there is a separate statement of the profit or loss.

Form and Headings

Much criticism has been directed against the form and headings of the Balance Sheet, and the various points are dealt with in the subsequent paragraphs.

Correct Sides for Assets and Liabilities

Considerable controversy has arisen over the sides of the Balance Sheet on which the assets and liabilities respectively appear. A Balance Sheet purports to represent the state of affairs *as shown by the books*, of the business. The sides of the Balance Sheet should, therefore, correspond with the sides of the Ledger. But they do not. The assets are on the debit or *left-hand* side in the Ledger, but in the Balance Sheet they are on the credit or *right-hand* side; the liabilities are on the credit or *right-hand* side in the Ledger, but in the Balance Sheet they are on the debit or *left-hand* side.

The Old Balance Account

In former times the accounts in the Ledger were literally closed. After the preparation of the Profit and Loss Account, the remaining balances (comprising the assets and liabilities) were transferred to a Balance Account. In this

account the assets naturally appeared on the debit side, and the liabilities on the credit side, thus conforming exactly to the Ledger arrangement. The sides of the account were quite properly headed "Dr." and "Cr." respectively, while the words "To" and "By" were also quite in order.

The name "Balance Account" was subsequently changed to "Balance Sheet," and the assets and liabilities were transposed. It is thought that the Balance Sheet attached to the Companies Act, 1862, was responsible for the change; being then compulsory, it undoubtedly tended to fix the *form* of the Balance Sheet.

It is now contended, however, that a Balance Sheet, *not being an account*, does not require the headings "Dr." and "Cr.," nor the prefixes "To" and "By." Although occasionally met with, these headings and prefixes are fast vanishing from modern Balance Sheets. American accountants not only omit the headings and prefixes, but also place the assets on the debit side, and the liabilities on the credit side, thus making them correspond with the Ledger.

"Assets" and "Liabilities"

The headings "Assets" and "Liabilities" have been subjected to sharp criticism, and it must be admitted that they are far from satisfactory; yet they are the best that have up to the present been suggested.

"Capital" appearing on the Balance Sheet as a *liability* has also evoked some criticism, but this seems quite correct. In double-entry book-keeping, the Balance Sheet is looked upon as the Balance Sheet of the *business*, which is regarded as a separate entity. The business, therefore, owes so much to outside persons called creditors, and so much to the proprietor for his capital. In his private Balance Sheet, "Capital invested in Own Business" would appear as one of the assets. This is strictly in accord with double-entry principles.

Object of a Balance Sheet

The object of a properly drawn up Balance Sheet is to afford information on four important points—

1. The nature and value of the assets.

2. The nature and amount of the liabilities.
3. Whether the firm is solvent.
4. Whether the firm is overtrading.

If the assets, properly valued, exceed the liabilities, the firm is solvent, that is, able to pay its debts in full. Since capital itself is the excess of assets over liabilities, a business is solvent by the amount of its capital. A firm is said to be overtrading when it is buying beyond its means of payment.

order of realizability, for *Cash* is the main thing required to pay the debts. The order is, therefore: Cash, Investments, Bills Receivable, Debtors, Stock and Property (Land, Buildings, Plant and Machinery, Furniture and Fixtures, etc.). The liabilities are stated in the order in which they would have to be discharged, which is: Bills Payable, Loans, Creditors, Outstanding Expenses, Partners' Advances, Partners' Capitals. The following is a *pro forma* example—

BALANCE SHEET

LIABILITIES				ASSETS			
	£	s.	d.		£	s.	d.
Bills Payable				Cash in hand			
Loans				Cash at Bank			
Creditors				Investments			
Outstanding Expenses				Bills Receivable			
Income Received in Advance				Debtors			
Partners' Advances				Stock-in-trade			
Partners' Capitals				Land and Buildings			
				Plant and Machinery			
				Furniture and Fixtures			
				Unexpired Payments			
				Goodwill			

In order for the position to be financially sound, the total of the debts due to Creditors, including Bank Overdraft (if any), should not exceed the resources immediately available to meet them, i.e. the Cash, Investments, and Bills Receivable, usually termed the liquid assets.

Further, the whole of the capital should not be locked up in fixed assets, which are difficult to realize; a certain amount should be kept available for working capital, or else the firm may have to resort to loans, the interest on which eats into the profits. A business may, therefore, be *solvent* without at the same time being financially *sound*.

Order of Assets and Liabilities

The assets and liabilities in a Balance Sheet are not always stated in the same order. The question therefore arises: Which is the correct order? Strictly speaking, there is no correct order. The methods that prevail are based on sound considerations, and the constructor of a Balance Sheet may adopt which he likes.

By the first method, the assets are stated in the order in which they would be available to pay off the liabilities. This is obviously the

By another method, the assets and liabilities are stated in the *order of permanence*, the fixed assets and liabilities being placed before the floating assets and liabilities. A *pro forma* example is shown at the top of the next page.

In some commercial concerns, e.g. a bank, the Balance Sheet partakes of both methods; the liabilities are stated in the order of permanence, and the assets in their cash order. The cash is put first, because it shows the stability of the bank and inspires confidence.

Another variation is often met with in practice. The floating assets and liabilities take precedence of the fixed assets and liabilities, but the assets begin with the debtors, and the liabilities start with the creditors. Cash in hand and at Bank is usually shown as the last of the assets, as in the case of a joint stock company's Balance Sheet.

Nature and Classification of Assets

Assets are the property and possessions of the business, such as its land, buildings, stock, book debts, investments, and cash. In the following paragraphs the assets are dealt with under their usual classifications.

BALANCE SHEET

LIABILITIES			ASSETS		
	£	s. d.		£	s. d.
Partners' Capitals			Goodwill		
Partners' Advances			Land and Buildings		
Creditors			Plant and Machinery		
Loans (or Overdraft)			Furniture and Fixtures		
Bills Payable			Stock-in-trade		
Outstanding Expenses			Debtors		
Income Received in Advance			Unexpired Payments		
			Bills Receivable		
			Investments		
			Cash in hand		
			Cash at Bank		

Fixed Assets are those which are purchased for permanent retention, and with which it is intended to earn income for the business; such are plant and machinery, land and buildings, fixtures and fittings, etc.

Floating Assets are those which are acquired and held only for a time, being intended for resale or subsequent conversion into money; such are stock-in-trade, bills receivable, book debts, etc. For instance, a floating asset may one day be stock, then next day a book debt, then subsequently a bill receivable, then finally cash.

It should be noted that the same asset may be either fixed or floating according to the nature of the business. Thus plant, in most businesses, is a *fixed* asset; but to a firm manufacturing machinery, it would be a *floating* asset, i.e. stock-in-trade. Motor vehicles would usually be a *fixed* asset; but, to a motor firm, a *floating* asset. If the asset is purchased for permanent retention, it is a fixed asset; if it is held merely for the purpose of sale, it is a floating asset.

Wasting Assets is a term applied to those fixed assets which depreciate through wear and tear, as, for example, plant and machinery. It is also applied to assets such as mines, quarries, etc., which become exhausted through being worked. It is frequently applied, too, to assets such as patents, leases, etc., the value of which is lost through effluxion of time.

Liquid Assets are those that are immediately available to pay liabilities, the principal being cash at bank and cash on short deposit; also those that can be quickly turned into money, as, for instance, gilt-edged securities, bills receivable, etc.

Fictitious Assets is a name given to debit

balances which represent intangible or irrecoverable expenditure, such as Preliminary Expenses, Unexpired Insurance Premium, and a debit balance of Profit and Loss. Goodwill is often classified as a fictitious asset.

Methods of Valuing Assets

There are various methods of valuing assets, and these are explained in the separate paragraphs which follow.

Fixed Assets

Fixed assets are generally valued at cost, less an adequate allowance for depreciation. Thus, the depreciated values of the Land and Buildings, Plant and Machinery, Furniture and Fixtures, Motor Lorries, Horses, Carts and Vans, will be the values set against these assets in the Balance Sheet year by year. Leasehold Land and Buildings are generally depreciated over the number of years which the lease has to run.

Freehold Land may not need depreciation at all, as the property may be rising in value. On the other hand, no credit is usually taken for any appreciation in the value.

Loose Tools are generally revalued, and any difference in value between the stock at the commencement of the trading period and the stock at the close of it is written off as depreciation. Patents are usually depreciated over the "life" of the patent, i.e. the number of years still unexpired.

Goodwill

Goodwill may or may not be depreciated. In the case of a joint stock company, there is no legal necessity to write it down. Goodwill will, therefore, be valued at the price originally paid

for it, unless, in the case of a partnership, the partners decide to reduce its book value by writing so much off to Profit and Loss.

Debtors and Bills Receivable

The Sundry Debtors will be taken at their book value after writing off any debts known to be bad. A Reserve of about 5 per cent is then made off the book value as a provision for possible bad debts. A further Reserve of 5 or 2½ per cent is often made to cover possible losses by discount. The Bills Receivable will also be taken at their book value, less a Reserve for any bills expected to be dishonoured.

Investments

Investments will, generally speaking, be valued at cost, unless the market price is considerably lower than this. In such cases, if the difference is merely a temporary fluctuation, a Reserve may be made to cover it. If, however, the decrease in price is considered to be permanent, the depreciation should be written off, and the Investments shown on the Balance Sheet at their current market price.

Stock-in-Trade

Stock-in-trade is usually valued at cost price, but there are several exceptions to this rule.

In the building trade, where the price of materials fluctuates from day to day, it is usual to value the stock-on-hand at balancing time at the actual market price. In the corn trade, too, where prices vary from day to day, it is usual to value the closing stock at market price.

It often happens, even in businesses where it is usual to value stock at cost price, that amounts have to be written off the inventory value, especially when part of the stock is found to be shop-soiled and therefore of less value; also, when part of the stock is found to be obsolete and virtually unsaleable, it is frequently written off. The value of the stock should, therefore, be the value of stock in good condition and actually saleable.

The rule generally laid down for valuing Stock-in-trade is that it should be valued at cost or market price, *whichever is the lower*. The reason underlying such rule is that provision should be made for all possible loss, but no credit should be taken for any possible gain, this being left for actual realization.

There is one notable exception to this rule, and that is in the case of bottled wines like port. It is well known that the flavour improves with

age, and therefore the stock *appreciates* through being kept year by year. In such cases a small percentage may legitimately be added to the value of the stock; this may be regarded as interest on the capital value of such stock.

Goods on Consignment and Sale or Return

Goods on Consignment and Goods on Sale or Return should be valued at cost, plus any expenses on them, and either included in the Stock, or else shown separately on the Balance Sheet as "Stock in hands of Customers." In the case of partly manufactured goods, the stock is valued at cost price of the material used, plus an estimated proportion of the expenses of manufacture.

Fixed and Floating Liabilities

Liabilities, in book-keeping, are the debts payable by the business to outside persons called creditors, and to the proprietor of the business (or the partners, as the case may be) for the capital and any advances.

Fixed Liabilities are the Capital and any permanent Loans. In the case of joint stock companies, the fixed liabilities are the Share Capital and the Debentures, though the latter are often fixed only for a certain number of years.

Floating Liabilities are the liabilities of a temporary character, such as Bills Payable, Creditors, Outstanding Expenses, Partners' Current Accounts (when in credit), and Income Received in Advance.

Fictitious Liabilities

Fictitious Liabilities are those items which often appear on Balance Sheets under the heading of "Liabilities," but which are falsely so called. A true liability is one in which the money value has actually to be paid out to an outside party, called a creditor. The ordinary creditors are creditors for goods supplied, or, in the case of agents, for services rendered.

A loan is money received which has definitely to be repaid. Such items, however, as Share Premiums, Debenture Premiums, Forfeited Shares, are capital receipts; and such items as Royalties Received in Advance, Unexpired Value of Apprentice Premium, etc., are revenue receipts. There is not in any case, however, the slightest obligation to repay the money so received. It is true that, in the event of a winding up, these amounts might become payable to the proprietors of the business; but,

while the business is a going concern, such capital receipts and income received in advance cannot be regarded as true liabilities.

Contingent Liabilities

Contingent Liabilities are those which may or may not materialize. They are a liability of the business only if certain circumstances arise. For instance, every bill of exchange is a contingent liability to the drawer, as he may in the last resort be called upon to pay it. He is only liable to pay it if the acceptor fails to do so; and if payment by the acceptor to the holder of the bill is doubtful, then such a liability must be provided for.

Generally speaking, contingent liabilities are merely shown as a footnote to the Balance Sheet, a very common example being Bills Receivable under discount. Another example is found when the business holds partly-paid shares in a joint stock company. Further calls may or may not be made on such shares. Uncertainty of happening is, of course, the very essence of a contingent liability.

Capital

In book-keeping, Capital is the sum total of all the business assets, when there are no liabilities; when there are both assets and liabilities, the Capital is the excess of the assets over the liabilities. With regard to a joint stock company, however, the Capital is the amount contributed by the shareholders, irrespective of the assets and liabilities.

Fixed Capital is the capital composed of the fixed assets.

Floating or Circulating Capital is the capital represented by the floating assets.

Trading Capital consists of the Fixed and Floating Capitals.

Loan Capital comprises money borrowed from outsiders by means of ordinary loans, mortgages, debentures, etc. Many accountants strongly object to loans from outsiders being called Capital.

Working Capital

Working Capital is the amount of money that remains for running the business after payment of the purchase price. Thus, if a company starts with a capital of £60,000, and spends £40,000 of it in acquiring the assets and goodwill of a business, then £20,000 will remain as working capital.

When a company has called up all its share

capital and still requires more money, it often issues debentures for the express purpose of getting "working capital," as it is commonly called. Debentures may, however, be repayable at the end of a period of years. Hence, the objection to the use of the word "Capital" in connection with money where there is a definite legal obligation to repay. With ordinary capital, there is no legal obligation to repay *while the business is a going concern*; though, in the event of a dissolution or winding up, such capital as remains may be "returnable."

Deficiency

When the liabilities of a business exceed the assets, the difference is called a "Deficiency." For the purpose of theoretical completeness, the difference between the two sides of the Balance Sheet would have to be adjusted by writing the word "Deficiency" at the bottom of the assets, and then placing alongside of it, in the money columns, the amount of such difference. When such a state of affairs exists in actual practice, it is usually time to prepare, not a Balance Sheet, but a bankruptcy Statement of Affairs!

Adjustments and the Balance Sheets

When constructing a Trading and Profit and Loss Account and Balance Sheet from a given Trial Balance, it is usual to make the required adjustments direct in the Profit and Loss Account. Care must therefore be taken to see that all such adjustments are incorporated in the Balance Sheet, otherwise the totals of the latter will not agree.

Completing the Double Entry

The adjustments made in the Profit and Loss Account are one-sided entries, and will consequently throw out the double entry, unless the complementary entry is made on the Balance Sheet. The accruing Rent, which is added to the Rent in the Profit and Loss Account, must also appear among the liabilities on the Balance Sheet. The amount debited to Profit and Loss for Bad Debts Reserve must also be shown as a deduction from the Debtors on the Balance Sheet. The amount subtracted from Insurance in the Profit and Loss Account must be shown as Unexpired Insurance on the assets side of the Balance Sheet. The Interest on Capital debited to Profit and Loss Account must be added on to the Capital in the Balance Sheet.

Items already in the Trial Balance are dealt with only *once*, either in the Profit and Loss

Account or in the Balance Sheet ; items outside the Trial Balance, i.e. the adjustments, are dealt with *twice*, both Profit and Loss Account *and* Balance Sheet.

Wrong Stock

A very common error is to put the wrong Stock on the Balance Sheet. The stock entered there is the one erroneously taken from the Trial Balance, which is the Stock at start. The correct stock to be shown on the Balance Sheet

amount shown in the Profit and Loss Account. The correct amount to deduct from the Debtors on the Balance Sheet is the *new reserve*, not the old one, nor the difference between the old and the new reserves.

Worked Example

We will suppose that from the following Trial Balance, extracted from the books of Messrs. Vapper & Peale, it is required to prepare a Balance Sheet as at 31st December, 19..

TRIAL BALANCE			Dr			Cr.		
	£	s.	d.	£	s.	d.		
Cash at Bank	1,078	12	6					
Cash in hand	25	12	10					
Sundry Debtors	4,678	15	1					
Sundry Creditors				2,287	16	8		
Land and Buildings	3,000	—	—					
Plant and Machinery	1,750	19	6					
Furniture and Fixtures	225	12	8					
Stock, 1st January	3,156	15	4					
Purchases	3,898	16	8					
Sales				10,564	11	9		
Returns Inwards	247	13	11					
Returns Outwards				684	12	8		
Bills Receivable	868	12	6					
Bills Payable				674	19	6		
Carriage Inwards	359	11	4					
Carriage Outwards	250	12	10					
Manufacturing Wages	2,086	15	6					
Salaries	675	12	6					
Coal, Gas, and Water	154	8	3					
Rates and Taxes	101	11	8					
Apprentice Premium				200	—	—		
Fire Insurance	65	10	—					
Interest and Bank Charges	59	14	6					
Discounts Allowed	476	12	7					
Discounts Received				268	16	3		
General Expenses	188	9	10					
Bad Debts	178	15	6					
Bad Debts Reserve, 1st January				250	—	—		
Insurance Stamps	86	3	8					
A. Vapper, Capital Account, 1st January				5,727	12	6		
H. Peale, Capital Account, 1st January				4,506	18	10		
A. Vapper, Drawing Account	850	—	—					
H. Peale, Drawing Account	700	—	—					
	£25,165	8	2	£25,165	8	2		

is the Stock at finish, which is not in the Trial Balance or even in the books. Sometimes it will be found that Stock has been inadvertently omitted from the Balance Sheet altogether.

Wrong Bad Debts Reserve

Another common error is to show the wrong amount as a Bad Debts Reserve. The amount taken as the Reserve is merely the adjusting

We will also suppose that the following adjustments are necessary—

Charge Depreciation on Land and Buildings at $2\frac{1}{2}$ per cent, on Plant and Machinery at 10 per cent, and on Furniture and Fixtures at 10 per cent.

Make a Reserve of 5 per cent on the Sundry Debtors for possible Bad Debts.

Carry forward Unexpired Rates and Taxes,

£34 15s. 6d.; Unexpired Fire Insurance, £21 6s. 6d.

The Apprentice Premium is for five years, and must be apportioned accordingly.

Make a Reserve for Audit Fee, £100; and provide for Wages accrued, £64 15s. 6d.; Salaries accrued, £35 4s. 6d.

Interest to be allowed on Capital at 5 per cent, but no Interest is to be charged on Drawings. Profits and Losses are divisible equally.

The value of Stock at 31st December was agreed at £3,419 12s. 8d.

The Net Profit for the year, as shown in the previous chapter, to be taken as £2,078 4s. 8d.

BALANCE SHEET AS AT 31ST DECEMBER, 19..

LIABILITIES			ASSETS		
£	s	d	£	s	d
Bills Payable			Cash in hand	25	11 10
Sundry Creditors	2,287	16 8	Cash at Bank	1,078	12 6
Reserve for Audit Fee	100	—			
Unexpired Apprentice Premium	160	—	Bills Receivable	4,678	15 1
Accrued Wages and Salaries	100	—	Sundry Debtors	233	18 9
Capital Accounts—			Less Bad Debts Reserve		
A. Vapper—					
Balance, 1st January	5,727	12 6	Stock		4,444 16 4
Add Interest	286	7 8	Land and Buildings	3,000	—
Add Share of Profit	1,039	2 4	Less Depreciation	75	—
	7,053	2 6			2,925 —
Less Drawings	850	—	Plant and Machinery	1,750	19 6
		6,203 2 6	Less Depreciation	175	2 —
H. Peale—					1,575 17 6
Balance, 1st January	4,506	18 10	Furniture and Fixtures	225	12 8
Add Interest	225	6 11	Less Depreciation	22	11 3
Add Share of Profit	1,039	2 4			203 1 5
	5,771	8 1	Unexpired Rates and Taxes	34	15 6
Less Drawings	700	—	Unexpired Insurance	21	6 6
		5,071 8 1			56 2 —
		£ 14,597 6 9			£ 14,597 6 9

An alternative form is shown below—

BALANCE SHEET AS AT 31ST DECEMBER, 19..

LIABILITIES			ASSETS		
£	s	d	£	s	d
Sundry Creditors—			Land and Buildings	3,000	—
Open Accounts	2,287	16 8	Less Depreciation	75	—
Bills Payable	674	19 6			2,925 —
Reserve for Audit Fee	100	—	Plant and Machinery	1,750	19 6
Accrued Wages and Salaries	100	—	Less Depreciation	175	2 —
Unexpired Apprentice Premium					1,575 17 6
Capital Accounts—			Furniture and Fixtures	225	12 8
A. Vapper—			Less Depreciation	22	11 3
Balance, 1st January	5,727	12 6			203 1 5
Add Interest	286	7 8	Unexpired Rates and Taxes	34	15 6
Add Share of Profit	1,039	2 4	Unexpired Insurance	21	6 6
	7,053	2 6			56 2 —
Less Drawings	850	—	Stock-in-trade		3,419 12 8
		6,203 2 6	Sundry Debtors—		
H. Peale—			On Open Accounts	4,678	15 1
Balance, 1st January	4,506	18 10	Less Bad Debts Reserve	233	18 9
Add Interest	225	6 11			4,444 16 4
Add Share of Profit	1,039	2 4	On Bills Receivable	868	12 6
	5,771	8 1			5,313 8 10
Less Drawings	700	—	Cash in hand	25	11 10
		5,071 8 1	Cash at Bank	1,078	12 6
		£ 14,597 6 9			1,104 4 4
					£ 14,597 6 9

CHAPTER XXIII

CONSIGNMENTS AND JOINT VENTURES

A VERY large part of the world's commerce is carried on by agents or brokers, who receive their payment in the form of commission instead of profit.

The method is applied in many ways and has great advantages.

An agent, for example, need not possess a large capital, as the extent of his business is determined by his skill rather than by his assets.

A trader to whom firms sell goods on credit, no matter how short that credit may be, becomes the absolute owner of those goods, and should disaster overtake him, the firm that supplied them has no claim upon those goods as such, but only a claim for the value of them in pounds, shillings, and pence.

There are a great many persons who can be relied upon to act in an entirely honourable way on behalf of others, who might not be considered sufficiently substantial for heavy credit transactions.

Thus Messrs. Rokeby & Co., of Belfast, wish to do business in Southampton in parcels of goods that are valued at thousands of pounds. They get into touch with Mr. Robins of that town.

Mr. Robins has a very high reputation, and has always proved himself capable of protecting the interests of the firms he represents or with whom he has dealings. As an agent he would be a very suitable man to receive a consignment of goods valued at, say, £1,000.

But should Messrs. Rokeby & Co. put an inquiry through, as to his suitability for open credit of the same amount, the reply might be that he was not known as a trader, and £100 would be a safer limit.

The agent to whom goods are consigned simply holds those goods on behalf of the firm that supplies them, and the question of his own ability to pay for them need not arise. The firm is not limited in the amount of business that it can carry on through him, and goods may be consigned to him in a constant stream, being, as they arrive, sold by him to other firms.

Consignment Outwards

A "Consignment Outwards" is the dispatch of a quantity of goods from one place to another,

usually to some country or place abroad, for the purpose of sale. The person who forwards the goods is called the "Consignor," and the person who receives the goods is called the "Consignee." The latter's remuneration for selling the goods is termed "Commission"; it usually takes the form of a percentage of the gross sales.

Distinction Between a Consignment Outwards and a Sale of Goods

When goods are *sold* to a person, the legal ownership of the goods passes to that person; but when goods are *consigned* to a person, the property in them still remains in the consignor. Hence, while the person to whom goods are sold becomes a *debtor*, the person to whom goods are consigned remains only an *agent*. Further, if the consignment cannot be sold, it is returnable; but once goods are sold, they are not returnable, except for some very special reason, such as being damaged or being of the wrong kind.

Distinction Between a Consignment Outwards and Goods on Sale or Return

The person to whom goods are consigned is an *agent* of the sender, but the person to whom goods are sent on sale or return is merely an *optional purchaser*.

Special Consignment Books and Marks

Where consignments are numerous, a special "Consignment Day Book" and a separate "Consignment Ledger" are generally kept. At the end of the month the total of the Consignment Day Book is credited to a "Goods on Consignment Account" in the General or Impersonal Ledger. The various consignments are distinguished by the name of the place to which the goods have been sent, or by the name of the consignee, or by a special letter or number, or both; for example, "Consignment to A. Smith," or "Consignment to Calcutta," or "Consignment Z 27."

Pro Forma Invoice

When the goods are dispatched, a *pro forma* invoice is sent with them, giving particulars of the goods, namely, description, number or

quantity, weight, prices, marking, and packing. The goods are dealt with in the consignor's books at cost, but are generally invoiced to the consignee at a certain percentage above cost. In such cases, the consignee may sell the goods at the invoice price, which represents the minimum price, or at as high a price as he can obtain, being induced to do so by the fact that his commission is based on the actual amount of the sale; so that the more he sells the goods for, the greater his commission.

He may not, however, sell the goods below the invoice price without previous reference to the consignor. The latter would consent to this only in the case of adverse market conditions, and then, probably, only if the loss on the sale were less than the expense of having the goods sent back.

If credit is taken in the books for any profit before it is realized—and this is the case when goods are entered up at *pro forma* prices—such profit must at balancing time be transferred to a "Consignment Suspense Account" if the goods are unsold. It is advisable, however, *not* to anticipate the profit; for market conditions change very rapidly at times, and might turn the expected gain into an unexpected loss.

Bill of Lading

When goods are sent by a vessel carrying mixed consignments, the usual procedure is to obtain a receipt for these goods from the responsible official aboard the vessel.

This document, usually called "The Mate's Receipt," is later exchanged for a Bill of Lading.

This is a document usually signed by the captain or master of a ship on behalf of the owners, and is a contract for the conveyance of the goods mentioned in it, to the port specified. Such goods have to be surrendered to the person named in the Bill of Lading, or to his representatives.

Copies of Bill of Lading

A Bill of Lading is usually made out in triplicate, and requires a sixpenny impressed stamp on each copy. The number of copies, however, varies from two to six. In many cases three stamped copies are used and one plain one.

The captain retains one copy. A second is sent to the consignee by post, and the other by the boat-carrying the goods, or by a later post, or, as is explained later, they may be sent through the bank.

The object of sending the Bill of Lading in

two or three different ways is to ensure that the consignee shall have one copy at least as early as the goods arrive, as this is his evidence that the goods are to be delivered to him. It would not be safe to run the risk of delay or of a document being lost in the post, as vessels cannot wait at a harbour to deliver parcels.

The first Bill of Lading that comes to hand or that is used is the official document, and cancels the others.

Once a ship's master has issued Bills of Lading for a consignment of goods, he holds those goods in trust.

Bill of Lading Not a Negotiable Instrument

Bills of Lading are often made out in blank, that is, no special consignee is named. The ownership of the goods then remains in the consignor, who has therefore the right of "Stop; page *in transitu*." Although the endorsement and delivery of a Bill of Lading operate as a valid transfer of the property of the goods named therein, yet a Bill of Lading is not, strictly speaking, a negotiable instrument; as the transferee, even though he be a *bona fide* holder for value, acquires no better title than the transferor himself had. A "clean" Bill of Lading is one that has no qualifications, such as "weight and contents unknown," "value unknown." A specimen is given at the top of the next page.

The Bill of Lading is the document of title to the goods, and without this document no one can unship the goods. The insurance policy is the document by virtue of which a claim can be made for the value of the goods if lost at sea.

Expenses on Consignment

In consigning goods abroad, certain expenses will be incurred, such as Carriage or Cartage to the Docks, Dock Dues, Freight, and Marine Insurance. All these expenses must be charged direct to the Consignment Account, from the Cash Book if paid, but if unpaid, by means of a Journal entry, thus—

Consignment Account	Dr.
To Railway Co. (Carriage)	Cr.
„ Shipping Co. (Freight)	Cr.
„ Insurance Co. (Insurance)	Cr.

When the goods arrive at their destination there will be further expenses to defray, namely, dock dues, unloading and ~~costing~~ charges, fire insurance, and possibly warehouse or storage

BILL OF LADING

6d.
Stamp.

SHIPPED in good order and well conditioned by *Messrs. Teale and Levear* in and upon the good steamship called the *Early Bird*, whereof is master for this present voyage *Thomas Creep*, and now riding at anchor in the river *Thames* and bound for *Cape Town*.

30 Cases of Fancy Goods

S. & B.
1-15
16-30

T. & L.

Cape Town

being numbered and marked as in the margin, and are to be delivered in the like good order and well conditioned at the aforesaid port of *Cape Town* (the Act of God, the King's enemies, fire, and all dangers and accidents of the sea, rivers, and navigation of whatever nature and kind soever excepted) unto *Messrs. Smart and Bende* or to their assigns, they paying freight for the said goods *Twenty pounds eight shillings and sixpence*, with primage and average accustomed. In witness whereof the master of the said ship hath affirmed to three Bills of Lading all of this tenor and date, one of which being accomplished the other two to stand void.

Weight, contents, and value unknown.

Dated in London,
11th June, 19..

Thomas Creep,
Master.

rent. If the goods are sold in lots by public auction, then auctioneer's fees, and auction room expenses, printing, stationery, advertising, and all similar charges will have to be met; or if the sale is effected through a broker, then there will be the bill for brokerage to pay.

These expenses will be paid by the consignee, and debited in his books to the consignor. When settling with the consignor, the consignee will deduct these charges, and also his commission from the proceeds of the sale, and remit only the balance, less, of course, any advance or remittance on account. In this way he recovers the money he has disbursed and, at the same time, obtains his commission. The latter is charged on the *gross* amount of the sales.

Advances on Consignments

The consignee usually remits a certain sum of money as an advance against the consignment. This is not a part payment of the consignment, because no part of the goods is as yet sold. It is simply an advance by way of security for the large amount of goods that has been sent to the consignee.

Instead of sending over money from himself or through his London agent, he may arrange for the consignor to draw a bill on him at one month or two months, according to circum-

stances. Advances and remittances on account should always be posted to the personal account of the consignee, and *not* to the Consignment Account.

The amounts thus figure in the books as a liability. This is the correct position; for if the consignee does not sell the goods, the money will have to be repaid to him. On the Balance Sheet, the advance is sometimes shown as a liability, and sometimes as a deduction from the consignment on the assets side, the reason for the latter being that, in the event of the consignee selling the goods, the advance will count as part payment.

Bills Drawn Against Consignments

In many cases it is customary for the consignor to draw a bill on the consignee for about 75 per cent of the value of the consignment (leaving ample margin for banker and consignee), and to discount or sell such bill, so that he may not be prevented from having the use of the money until the goods are actually sold and paid for. The bill is discounted or sold to a bank having a branch or agent in the consignee's place of business. The bill is drawn in three copies or "vias," and is called a "documentary bill."

The bankers require the invoice, bill of lading,

insurance policy, and letter of hypothecation to be attached to the bill as security against dishonour by non-acceptance or non-payment. They then forward the bill with the accompanying documents to their branch or agent at the place of destination of the consignment.

If the drawer of the bill is a well-known trader of sound financial standing, or if the consignee himself is in good local repute, the banker's

Letter of Hypothecation

The Letter of Hypothecation pledges the goods as security for the payment of the bill; and should the bill be dishonoured by non-acceptance or non-payment, the banker's agent would sell the goods, and the banker would then have recourse to the drawer to make good any deficiency in the amount of the payment.

The following is a specimen of such a Letter—

LETTER OF HYPOTHECATION

LONDON,

16th March, 19..

THE DIRECTORS OF THE ASIATIC BANK, LTD.,
LONDON.

GENTLEMEN,

We enclose herewith a Bill at 30 days' sight drawn by us on Messrs. Phelps & Sons of Bombay for £700, and, as security, forward with the said Bill the shipping documents for the goods, as follows—

Invoice for 15 Bales of Prints, valued at £700.

Policy of Insurance F.P.A. for £800, payable in London.

Bill of Lading for 15 Bales of Prints, marked P. & S., Bombay, 1-15, per s.s. Neptune from London to Bombay, Freight on which amounting to £25 16s. 8d. is paid by us.

The above-mentioned documents are to be given up on payment of the Bill.

Should the said Bill suffer dishonour, we hereby authorize you to place the said goods in the hands of a broker for sale, and to charge us with all expenses, including insurance, commission for sale, and guarantee, and to apply the proceeds of sale in payment of the said Bill of Exchange; and, in case of any deficiency, we hereby agree to pay the amount to you on demand. We also agree, in case of loss, that the Policy of Insurance shall be held for your benefit for payment of the said Bill.

Should the documents hereby hypothecated be surrendered against payment of the said Bill of Exchange before maturity, rebate is to be allowed to the acceptor at the rate of one-half per cent above the London Joint Stock Banks' current rate for short deposits.

Against the above, please advance us 90 per cent, namely, £630, and credit our account as arranged.

Yours faithfully,

A. Sellar & Co.

agent will probably surrender the documents on the consignee accepting the bill. Otherwise, before parting with them, the representative of the bank will require not only acceptance, but payment of the bill, allowing, of course, a "rebate" for the unexpired period of its currency. The bills usually contain the appropriate clause, "*Documents to be surrendered against acceptance,*" or "*Documents to be surrendered on acceptance and payment.*"

Being an agreement under hand, the above document requires a 6d. impressed stamp within 14 days of execution; but a 6d. adhesive stamp may be used, if cancelled by the customer's signature across it.

Importance of the Power of Hypothecation

The power of hypothecation is a most important one in commerce, as by its means a firm is

able to send goods to another firm of whose financial strength it has little knowledge ; and also by its means a firm can obtain the use of bank money to finance heavy transactions.

Thus Bondley & Co., of Bombay, export £5,000 worth of tea to Richley Dell, Ltd., of Eastcheap. The Bombay bankers make an advance to Bondley & Co. against the Bills of Lading and other papers, including a Bill of Exchange, payable on sight by the London buyers.

The Bombay bankers send the papers to the London bank that acts for them in such cases, and these bankers will not release the goods until Richley Dell, Ltd., have paid the bill or made an arrangement for its payment satisfactory to them.

As the reputation of the London merchants may be exceedingly high, their own bankers may negotiate the documents for them and allow them to clear the consignment.

But at all events, however, while the purchasers of the goods continue the payment, the exporter is safe ; more than this, he has had a large percentage of the money already.

Should, however, there be a difficulty and the importers be unable to meet the bill or to give satisfactory security, the bank can then act for the exporter (or rather on their own behalf) by placing the goods on the market and crediting any difference secured, or debiting any loss that might result.

The proportion that the bankers will advance upon a Bill of Lading depends on the circumstances of the case. A customer who is well known to them as being entirely satisfactory

But even here, where the value of the consignment in the auction room can be ascertained, the banks are inclined to advance up to the limit of a reasonable safety margin.

Sometimes, too, the bankers of an exporter may be aware that he has no reserves, but they are perfectly satisfied that his clients are men of substance.

Here they may be willing to advance money upon security, including a Bill of Exchange, payable thirty, sixty, or ninety days after sight.

But here also they must protect themselves against the possibility of dishonour by "non-acceptance."

This would be caused (where there was no middle man) by such a fact as the goods not being ordered, or not of the right quality, or some other reason.

Documentary Bills

Bills of Exchange are often drawn in the currency of the country to which they are being sent ; but when drawn in sterling, they are then payable at some specified rate of exchange. In some cases, the amount to be paid at maturity will be the amount of the bill, plus interest on it to the time it will take for the remittance to reach London. Documentary bills are sometimes sold to brokers who, in their turn, sell them to purchasers who have debts to settle in the places where the bills are payable, the documents attached affording the necessary security to the purchaser.

The following are examples of documentary bills—

DOCUMENTARY BILL	
No. 537 Exchange for £700. <div style="border: 1px solid black; width: 40px; height: 40px; margin: 10px auto; text-align: center; line-height: 40px;"> Stamp 7s. </div>	<div style="text-align: right; margin-bottom: 10px;"> LONDON, 6th April, 19.. </div> <p>NINETY days after sight of this FIRST OF EXCHANGE (Second and Third of the same date and tenor unpaid) pay to us or our ORDER the sum of <i>Seven hundred pounds</i>, value received against A. H. & Co. 638/67 = 30 Cases of Goods per s.s. <i>Carvellian</i>, and place to account as advised. Shipping documents attached to be surrendered on payment.</p> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="width: 45%;"> To Messrs. <i>Ah Hee & Co.</i>, <i>Hong Kong.</i> </div> <div style="width: 45%; text-align: right;"> <i>R. Chape & Son.</i> </div> </div>

and possessing ample reserves of capital, would often obtain a more generous advance than a firm notoriously weak.

The above bill would be endorsed—

Pay to the Reliable Bank, Ltd., or Order,
R. Chape & Son.

DOCUMENTARY BILL

No. 359.

Exchange for £600.

LONDON,

16th May, 19..

Stamp
6s.

SIXTY days after sight of this FIRST OF EXCHANGE (Second and Third of the same date and tenor unpaid) pay to our ORDER the sum of *Six hundred pounds* sterling, payable at the *National Bank of India's* drawing rate for demand drafts on London, with Interest at *six per cent* per annum added thereto from date hereof to approximate due date of arrival of the Remittance in London, value received against N. & Co. 754/78 = 25 Bales of Cotton-Goods per s.s. *Ocean King*. Shipping documents attached to be surrendered on acceptance.

To Messrs. *Nabob & Co.*,
Bombay.

F. Prempy & Co.

The above bill would be endorsed—

Pay the National Bank of India, Ltd., or Order,
F. Prempy & Co.

Where a documentary bill is in connection with an actual sale, the bill will be for the *full* value of the goods, and the banker will advance, as above, 90 per cent of the value.

If payment of the bill is made in due course, the banker will credit his customer with the 10 per cent margin (retained as additional security), less interest on the sum advanced from the time of such advance until the date when he receives payment of the bill.

Discount on Consignment Bills •

In cases where the bill drawn against a consignment is discounted by the consignor, the discount may be dealt with in two ways. In some firms it is charged to the Discount Account in the usual manner, being looked upon as an ordinary financial expense. In other firms it is regarded as part of the expense connected with the consignment; and it is, therefore, debited to the particular consignment in connection with which the bill was drawn. In a similar way, when consignments are financed by means of bank loans, the interest on such loans is charged to the Consignment Account.

Del Crédere Commission

Since the consignee is only an agent selling goods on behalf of his principal, it follows that all expenses and losses incurred by him

must eventually be borne by his principal, i.e. the consignor. If, therefore, the consignee in selling the goods makes a bad debt, such bad debt will ultimately fall on the consignor; for the consignee will remit only for that portion of the consignment for which he himself has received payment.

To avoid this contingency, the consignor may arrange to pay the consignee an extra commission, that is, in addition to the ordinary agent's selling commission. In return for this *del credere* (pronounced *del cred'-er-e*) commission, then, the consignee guarantees the proceeds of the consignment sales; in other words, he will pay the consignor, whether he himself gets paid or not.

Account Sales

When the goods are sold, the consignee will send the consignor an Account Sales. This is a statement giving particulars of what the goods have been sold for, and detailing the various expenses attending the sale of them.

From this the necessary Journal entries are made, and the Account Sales itself is either pasted into a special Guard Book, or else filed on a separate file, for the purpose of subsequent reference if necessary.

A specimen is given at the top of the next page.

Where the consignee, as in some cases, pays the freight and insurance outwards, then these two expenses will also appear on the Account Sales.

ACCOUNT SALES

ACCOUNT SALES of 50 Cases of Mixed Fancy Goods *ex s.s. Argosy*, sold by Messrs. Roepel & Co., of Melbourne, New Zealand, for the account and risk of Messrs. Trader & Sons, London.

		£		s.		d.		£		s.		d.	
T. & Co.	25 Cases of Mixed Fancy Goods	£16	4	0	0	0	0						
1-25													
T. & Co.	25 Cases of Mixed Fancy Goods	£18	4	5	0	0	0						
26-50													
	Less Charges and Expenses—												
	Cartage							6	10	6			
	Storage							9	18	4			
	Insurance							20	10	6			
	Commission 5%, £850							42	10	—			
											79	9	4
	Less Advance										770	10	8
											300	—	—
											£470	10	8

E. & O.E.

Sight Draft for £470 10s. 8d. herewith.

Roopel & Co., Melbourne,

15th April, 19..

Account Sales in Currency

Where the Account Sales is rendered in currency, it will require to be converted into sterling before the figures can be dealt with. The rate for conversion will be the rate ruling on the day when the Account Sales is received. Should, however, payment be made at a later date, and a different rate be current when the money is actually received, a Journal entry must be made transferring any profit or loss on exchange either to a "Difference in Exchange Account," or, if preferred, back to the Consignment Account, both methods being in use.

Balancing the Consignment Account

When the time comes for the Consignment Account to be balanced, one of three cases will arise, depending on whether the goods are (1) unsold, (2) fully sold, or (3) partly sold.

In the case of (i), the goods not being sold at balancing time, the amount of the Consignment Account, that is, the cost of the goods plus the

freight, insurance, etc., will be shown on the Balance Sheet as an asset, being the value of a portion of our stock abroad. Any advance or remittance on account may be shown either as a deduction from the consignment on the assets side, or as a separate item on the liabilities side. An example is given on the next page.

When (2) the goods have been fully sold and the Account Sales duly entered up, the Consignment Account is balanced. A debit balance denotes a loss, while a credit balance represents a gain, and such balance is carried to the Profit and Loss Account.

In the case of (3), the goods being only partly sold, then the value of the stock unsold must be written in on the credit side of the Consignment Account before balancing to ascertain the profit or loss. The gain or loss on the part actually sold will then be transferred to the Profit and Loss Account. The unsold stock, plus a proportionate part of the insurance and freight charges, will be brought down as a debit balance in the Consignment Account, and will figure in the

Balance Sheet as an asset, i.e. as "Stock on Consignment." The consignment expenses must, of course, be apportioned, otherwise the freight and insurance of the *whole* of the goods gets charged against the sale of *part* of them.

received, and *credit* Personal Account of consignee.

4. When the Account Sales is received—

(a) *Debit* Consignee's Account and *credit* Consignment Account with the gross proceeds.

BALANCE SHEET

LIABILITIES	£	s.	d.	£	s.	d.	ASSETS	£	s.	d.	£	s.	d.
Or—							Consignment	763	17	10			
K. Lupin				250	—	—	Less Advance	250	—	—			
							Consignment Account				513	17	10
											763	17	10

Account Current Between Consignor and Consignee

Sometimes interest is brought into account with respect to the money transactions connected with the consignment, thus introducing an Account Current between the two parties. The consignee will charge interest on the various sums of money paid out for expenses or remitted on account, and will likewise allow interest on the cash proceeds of the consignment. The interest runs from the date the money is received, or paid, up to the time when the Account Sales, with remittance in settlement is forwarded to the consignor. Examples of these will be found in the chapter on "Accounts Current."

Entries for a Consignment Outwards

In the preceding pages, the subject of Consignments Outwards has been dealt with from the standpoint of the office, as it will be realized that, at every step in the course of the transactions, a book-keeping entry is involved. The following list of rules will therefore be useful, if read in conjunction with the foregoing explanation and the worked example that follows.

1. *Debit* Consignment Account, and *credit* a Goods on Consignment Account, with the cost price of the Goods, by means of a Journal entry.

2. *Debit* Consignment Account with the Freight, Insurance, and other charges, and *credit* Cash if paid, or a Personal Account if unpaid.

3. *Debit* Cash Account or Bills Receivable Account with the amount of any advance

(b) *Debit* Consignment Account and *credit* Consignee's Account with the latter's expenses and commission.

(c) Or, alternatively, *debit* Consignee's Account, and *credit* the Consignment Account with just the *net* proceeds.

5. Balance the Consignment Account and transfer the balance to the Profit and Loss Account. Any Stock unsold must be *credited* before balancing, and brought down to the debit side after ruling off the account. The unsold Stock must also be charged with a proportion of the freight and insurance.

6. *Debit* Cash Account or Bills Receivable Account with any cash or bill received in settlement, and *credit* Consignee's Account.

7. Close Goods on Consignment Account by transfer to Trading Account.

Worked Example of Consignment Outwards

Consigned Goods, value £946 12s. 6d., to Stempel & Sons, of Melbourne. Paid Freight, etc., £68 14s. 6d., and Insurance, £42 5s. 6d. Drew on Stempel & Sons at 3 m/d for £350, as an Advance against the Consignment, and discounted the bill for £345 12s. 6d. Received Account Sales from Stempel & Sons, showing that part of the goods had realized gross £976 10s 9d., and that their Expenses and Commission amounted to £79 12s. 5d. The Stock unsold was valued, at cost price, at £315. Received draft at 2 m/d from Stempel & Sons for the amount due.

It is desired to record the above transactions in the books of the Consignor, and to show the Ledger Accounts affected—

JOURNAL		Dr.			Cr.		
		£	s.	d.	£	s.	d.
19..							
(1)	Consignment Account	946	12	6			
	To Goods, on Consignment				946	12	6
	Value of Goods forwarded to Stempel & Sons, Melbourne.						
(4a)	Stempel & Sons	976	10	9			
	To Consignment Account				976	10	9
	Gross proceeds of Sale, as per Account Sales.						
(4b)	Consignment Account	79	12	5			
	To Stempel & Sons				79	12	5
	Expenses and Commission, as per Account Sales.						
Or (4c)	Stempel & Sons	896	18	4			
	To Consignment Account				896	18	4
	Net proceeds of Sale, as per Account Sales.						

Dr.		CASH BOOK						Cr.		
Receipts		Bank			Payments			Bank		
		£	s.	d.				£	s.	d.
(3)	To Bill Receivable	350	—	—	(2)	By Consignment—				
						Freight		68	14	6
						Insurance		42	5	6
						„ Discount on Bill		4	7	6

BILLS RECEIVABLE BOOK									
Date Received	No. of Bill	From Whom Received	Led Fol.	Dis-count	Amount of Bill	Date of Bill	Term	Due Date	
19..				£	s.	d.			
(3)		Stempel & Son			350	—		3 m/d	
(6)		Stempel & Son			546	18	4	2 m/d	

LEDGER

Dr.		CONSIGNMENT TO MELBOURNE						Cr.	
19..		£	s.	d.	19..		£	s.	d.
(1)	To Goods	946	12	6	(4)	By Stempel & Sons (Gross			
(2)	„ Cash (Freight)	68	14	6		Proceeds)	976	10	9
	„ Cash (Insurance)	42	5	6	(5)	„ Stock	£315		
	„ Cash (Discount on Bill)	4	7	6		„ Expenses			
(4)	„ Stempel & Sons (Expenses and					315 of £111	37		
	Commission)	79	12	5		947			
(5)	„ Profit and Loss Account (Net								
	Profit)	186	18	4			352		
		£							
		1,328	10	9			1,328	10	9
	To Balance b/d	352	-	-					

Dr.		GOODS ON CONSIGNMENT						Cr.	
19..		£	s.	d.	19..		£	s.	d.
(7)	To Trading Account	946	12	6	(1)	By Consignment Account	946	12	6

Dr.		BILLS RECEIVABLE						Cr.	
19..		£	s.	d.	19..		£	s.	d.
(4)	To Stempel & Sons	350	-	-	(4)	By Cash	350	-	-
(5)	„ Stempel & Sons	546	18	4					

Dr.		STEMPEL & SONS						Cr.	
19..		£	s.	d.	19..		£	s.	d.
(4)	To Consignment	976	10	9	(3)	By Bill Receivable	350	-	-
					(4)	„ Consignment Account	79	12	5
					(6)	„ Bill Receivable	546	18	4
		£976	10	9			£976	10	9

Dr.		TRADING ACCOUNT						Cr.	
					19..		£	s.	d.
					(7)	By Sales			
						„ Goods on Consignment	946	12	6

Dr.		PROFIT AND LOSS ACCOUNT										Cr.		
						19..	By Trading Account (Gross Profit)					£	s	d.
						(5)	„ Consignment Account (Net Profit)					186	18	4

Consignment Inwards

Having seen the procedure and entries necessary in a Consignment Outwards, it is advisable to consider a Consignment Inwards.

A Consignment Inwards is the receipt of a quantity of goods by a person in this country from a person in some country or place abroad, for the purpose of sale. In fact, a Consignment Inwards is merely the reverse of the Consignment Outwards, i.e. as it appears in the books of the consignee, and from his point of view.

Distinction Between a Consignment Inwards and a Purchase of Goods

When goods are bought of a person, the property in the goods passes to the buyer, but when a consignment is received, the ownership of the goods does not pass to the receiver, but remains vested in the consignor. In the first case the relationship is that of *debtor* and *creditor*; in the second case the relationship is that of *principal* and *agent*. Further, a Consignment Inwards is returnable if it cannot be sold; a purchase of goods is not returnable for such a reason.

Distinction Between a Consignment Inwards and an Ordinary Sale of Goods on Commission

With a Consignment Inwards we receive actual possession of the goods; but in the other case we merely sell from samples. In the first case the sale is recorded in our books, and a Ledger Account is opened for the person to whom it is made. In the second case, when a sale has been made, we pass the order on to the principal, booking up only our expenses and commission.

Advance on a Consignment Inwards

When we receive goods on consignment, we may forward to the consignor a sum of money or allow him to draw on us, as an advance against the consignment. The advance will be debited to the Personal Account of the consignor, and

will appear in our books as an asset, being an amount repayable to us in the event of our not being able to sell the goods.

Methods of Dealing with a Consignment Inwards

There are two methods of dealing with a consignment of goods inwards.

The first method is to make no entry in the books when the Consignment is received. Not having contracted a liability, we should not make our books appear as if we had done so. The receipt of the goods is, therefore, merely acknowledged, and a record made in a memorandum "Consignment Inwards Book."

All expenses paid out in connection with the goods, such as dock dues, customs duties, unloading charges, fire insurance, cartage, storage, and warehousing, are debited to the Personal Account of the consignor. The sales of the goods, either for cash or on credit, are credited to the Consignor's Account, which is also debited with any advance, and with the commission for selling the goods.

The balance of the account shows the final amount due to the consignor, which is settled either by a sight draft or a bill. At the same time as the final remittance is made, an Account Sales is rendered to the consignor, giving him full particulars of the sales and details of the expenses and commission, so that he may understand how the amount of the final remittance is arrived at.

Opening a Consignment Inwards Account

The second method of dealing with a Consignment Inwards is to open a Ledger Account for the consignment as soon as it is received. It is felt that some record is necessary in the financial books, a mere memorandum being deemed insufficient and unsatisfactory. A "Consignment Inwards Account" is therefore opened, and debited with the value of the goods according to the *pro forma* invoice sent with them. A

similar amount is posted to the credit of the Consignor's Personal Account, thus completing the double entry. The expenses and commission are debited to the Consignor's Account, but the sales of the goods are credited to the Consignment Inwards Account. When the goods are all sold, the balance of the Consignment Inwards Account, called the *gross* profit, is transferred to the credit of the Consignor's Account.

In some cases, however, the Consignment Inwards Account is not only credited with the sales of the goods, but is also debited with the expenses and commission, so that the balance of the account may show the consignor's *net* profit. This is transferred to the credit of the Consignor's Personal Account, the balance of which shows the final amount due to the consignor.

It is hardly our business, however, to concern ourselves with the consignor's gross and net profits; and since the goods were invoiced to us at *pro forma* or minimum prices, it follows that the *apparent* profits as shown by our books, and the *actual* profits as shown by the consignor's books, may be widely different.

The two objections raised against the second method are: (1) that it creates a liability where one does not exist, thereby falsely establishing the relationship of debtor and creditor before it arises; (2) that there is a danger of the supposed amount due to the consignor being paid to him before the goods are actually sold.

Entries for a Consignment Inwards (Principal Method)

From a book-keeping point of view the following list of rules will be found useful, and will also prove of great assistance in following the worked examples which follow.

1. On receipt of the goods, no entry; simply an acknowledgment of the arrival of the goods.
2. On payment of the various expenses in connection with the consignment, *credit* Cash Account, and *debit* Consignor's Account.
3. On sending an advance, *debit* Consignor's Account, and *credit* Cash Account, or Bills Payable Account, as the case may be.
4. On selling the goods belonging to the consignment—
 - (a) For cash, *debit* Cash Account, *credit* Consignor's Account.
 - (b) On credit, *debit* Personal Account of party to whom goods are sold, and *credit* the Consignor's Account, by means of a Journal entry.
 - (c) For our own use, enter in our Purchases

Book as being bought from the consignor, *debiting* Purchases Account, and *crediting* the Consignor's Account.

5. For commission due, *debit* Consignor's Account, and *credit* the Commission Account by means of a Journal entry.

6. Close the Consignor's Account by *debiting* it with the final bill or cash in settlement, and *crediting* Cash Account or Bills Payable Account, as the case may be.

Entries for a Consignment Inwards (Alternative Method)

1. On receipt of the goods, *debit* Consignment Inwards Account and *credit* Consignor's Account, by means of a Journal entry.
2. On payment of the various expenses in connection with the consignment, *credit* Cash Account, and *debit* Consignment Inwards Account.
3. On sending an advance, *debit* Consignor's Account, and *credit* Cash Account or Bills Payable Account, as the case may be.
4. On selling the goods belonging to the consignment—
 - (a) For cash, *debit* Cash Account, and *credit* Consignment Inwards Account.
 - (b) On credit, *debit* Personal Account of party to whom goods are sold and *credit* Consignment Inwards Account, by means of a Journal entry.
 - (c) For our own use, enter in our Purchases Book as being bought from the Consignment Inwards Account, and *credit* this account.
5. *Debit* Consignment Inwards Account with the selling commission as agreed and *credit* Commission Account, by means of a Journal entry.
6. Balance the Consignment Inwards Account, and transfer balance to Consignor's Account.
7. Close Consignor's Account by *debiting* it with the final cash or bill in settlement, and *credit* Cash Account or Bills Payable Account, as the case may be.

Worked Example of Consignment Inwards

Received Consignment of Goods from A. Seller, valued, as *pro forma* invoice, at £840 12s. 6d. Terms: Agent's Commission, 5 per cent on all Sales; *del credere* Commission $2\frac{1}{2}$ per cent on all credit transactions. Paid Customs' Duties, £25 9s. 4d.; Landing Charges and Carriage, £9 10s. 6d.; Fire Insurance, £10 10s.

Sent A. Seller an Advance of £250. Sold

part of A. Seller's Consignment on credit to B. Simpson for £465 10s. 8d.; part for Cash, £426 13s. 4d.; and took remainder, valued at £320 8s. 5d., into stock for our own use. Paid Brokerage, £13 11s. 6d. Sent A. Seller an

Account Sales, and a sight draft for balance due to him.

It is desired to record the above transactions in the books of the consignee, and to show the Ledger Accounts affected—

PRINCIPAL METHOD

JOURNAL

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
19..	B. Simpson	465	10	8			
(4b)	To A. Seller				465	10	8
	Sale on credit of part of the Consignment Inwards						
(5)	A. Seller	72	5	4			
	To Commission				72	5	4
	5% Agt's Commission on £1,212 12s. 5d.	£60	12	7			
	2½% Del Credere Commission on £465 10s. 8d.	£11	12	9			

PURCHASES BOOK

		£	s.	d.	£	s.	d.
19..	A. Seller						
(4c)	Goods from Consignment Inwards				320	8	5

CASH BOOK

Dr.				Cr.	
Date	Receipts	Bank	Date	Payments	Bank
19..		£ s. d.	19..		£ s. d.
(4a)	To A. Seller (Sale of Consignment).	426 13 4	(2)	By A. Seller—	
				Customs Duties	25 9 4
				Landing Charges	9 10 6
				Fire Insurance	10 10 —
			(3)	„ A. Seller (Advance)	250 — —
			(2)	„ A. Seller (Brokerage)	13 11 6
			(6)	„ A. Seller (Sight Draft ¹)	831 5 9

¹ Sight draft = cheque.

LEDGER

A. SELLER

Dr.				Cr.	
		£ s. d.		£ s. d.	
19..	To Cash—		19..	By Cash	426 13 4
	Customs Duties	25 9 4		„ Purchases	320 8 5
	Landing Charges	9 10 6		„ B. Simpson	465 10 8
	Fire Insurance	10 10 —			
	„ Cash (Advance)	250 — —			
	„ Cash (Brokerage)	13 11 6			
	„ Commission	72 5 4			
	„ Cash	831 5 9			
		£ 1,212 12 5			£ 1,212 12 5

ALTERNATIVE METHOD

JOURNAL

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
19..	Consignment Inwards	840	12	6			
(1)	To A. Seller				840	12	6
	Receipt of Goods on Consignment.						
(4b)	B. Simpson	465	10	8			
	To Consignment Inwards				465	10	8
	Sale of part of the Consignment.						
(5)	Consignment Inwards	72	5	4			
	To Commission				72	5	4
	5% Agent's Commission on £1212 12s. 5d.						
	2½% Del Credere Commission on £465 10s. 8d.						

Dr.

CASH BOOK

Cr.

Date	Receipts	Bank	Date	Payments	Bank
19..	To Consignment Inwards Account	£ 426 13 4	19..	By Consignment Inwards Account—	£ s d.
(4a)			(2)	Customs Duties	25 9 4
				Landing, etc.	9 10 6
				Fire Insurance	10 10 —
			(3)	„ A. Seller	250 — —
			(2)	„ Consignment Inwards Account—Brokerage	13 11 6
			(7)	„ A. Seller	831 5 9

PURCHASES BOOK

19..	Consignment Inwards Account—	£	s.	d.	£	s.	d.
(4c)	Goods taken into own Stock				320	8	5

LEDGER

Dr.

CONSIGNMENT INWARDS

Cr.

19..	To A. Seller	£ 840 12 6	19..	By Cash	£ 426 13 4
	„ Cash—			„ Purchases	320 8 5
	Custom Duties	25 9 4		„ B. Simpson	465 10 8
	Landing Charges	9 10 6			
	Fire Insurance	10 10 —			
	„ Commission	72 5 4			
	„ Cash (Brokerage)	13 11 6			
(6)	„ Balance transferred to A. Seller's Account	240 13 3			
		£ 1,212 12 5			£ 1,212 12 5

<i>Dr.</i>		A. SELLER			<i>Cr.</i>	
19..		£	s.	d.	19..	£ s. d.
(3)	To Cash	250	—	—	(1)	By Consignment Inwards. 840 12 6
(7)	„ Cash	831	5	9	(6)	„ Transfer from Consignment Inwards Account 240 13 3
		£	1,081	5 9		£ 1,081 5 9

If all the Consignment Inwards were not sold when the cheque was sent in payment, then the unsold stock would be credited to the Consignment Inwards Account, and brought down as a *Dr.* balance after ruling off the account. There would also be a balance of like amount in A. Seller's account, and this would be written in on the debit side, and brought down as a *Cr.* balance after ruling off the account.

Joint Adventures and Speculations

One of the most interesting features of modern commerce is the frequency with which traders who may be in opposition in ordinary trade, come together for special joint ventures.

Many of these opportunities open out of the ordinary ways of trade; as, for example, two grocers are constantly working under the difficulty that by taking a certain quantity of goods they can obtain them at a lower rate, and in each case the quantity is twice as much as they can use.

By combining and buying the goods together, they save the extra discount or allowance that is made.

There are cases where this kind of combination is not approved by the supplying house, because it breaks a rule that they have made.

Some time ago a firm of manufacturers discovered that two grocers were buying their goods together in this way, and they raised the objection that as all the invoices passed through one of the two, that one was guilty of selling below the proper selling price in supplying the other.

They contended that the extra discount was given for the sake of encouraging grocers to develop business in their lines, and not to enable small buyers to obtain an advantage by combination.

Joint adventures, whether special or continuous, have had some very interesting consequences in trade. Men who have discovered that they could work together with advantage in actions of this kind have been led into closer alliance through them, and actual partnership

and pooling of interests throughout have resulted.

Special joint adventures are often entered upon because one party can contribute what another cannot.

A large wholesale buyer of china and earthenware, for example, is offered in confidence a very large stock at a low price, provided the money is paid forthwith.

The wholesale buyer realizes that it will take him three to six months profitably to dispose of the goods. He also knows that of the £3,000 required he can only find £1,000.

A friend is willing to join him in the purchase provided it is made a special transaction, but one in which the wholesale dealer's own business shall be supplied at an agreed price, but all other transactions shall be to large buyers at the best prices obtainable.

Again, two men desire to hold a majority of the ordinary shares of a small limited company, to which overtures for absorption have been made by a large company.

As they are more confident that they can secure a higher price than the present holder can obtain, and as he is willing to deal with them, they make an arrangement with him satisfactory to his wishes, and such as may give them a profit or involve them in a loss.

Against this loss they may have provided by arranging with the present holder that his payment shall be a sum down and a lien on the shares and their voting power till a fixed date, by which time they must pay for the shares or forfeit all their rights in them and lose the sum advanced.

Legal View of Joint Adventure

A Joint Venture is legally a partnership without the use of a partnership or firm name, limited to a particular speculation in which the two or more parties concerned agree to contribute certain specified amounts of capital, and to share profits or losses in the same manner or in any other equitable proportions.

Advantages of a Joint Adventure

One party may have the advantage of being able to buy on exceptionally good terms; another may be in a position to effect sales at particularly remunerative prices; another party (who may not be favourably circumstanced either for buying or selling) may, however, have special financial resources. Thus, the combined services of all the parties in a common venture may make it a highly profitable one.

Nature of the Venture

The venture may consist of a joint consignment of goods, a speculation in shares, an underwriting transaction, the exploitation of a patent, or any similar form of enterprise.

Methods of Procedure

There are various methods of dealing with the Joint Speculation, and in the following paragraphs these are separately discussed, and the necessary book-keeping procedure explained.

One Party as Manager

In many cases, it is usual for one of the parties to be appointed manager of the venture, that is, to do all the buying and selling and looking after it. For this he obtains an extra remuneration by being allowed to charge against the Joint Adventure a commission of so much per cent on the sales, and, in some cases, on the amount of the purchases, sales, and expenses.

In such cases, a Joint Account is opened and debited with the cost of the goods. Each of the other parties then remits his proportion of the cost, and this amount is placed to the credit of his Personal Account, as it is payable back again to him, plus his share of profit, or less his share of loss, as the case may be. The Joint Account is also debited with all charges, expenses, and commission; it is likewise credited with all sales, whether for cash or on credit.

The balance of the account then represents profit or loss to be divided according to arrangement.

If the goods have been sold for cash, then a remittance to each of the parties concerned, for the amount due to him, will close the speculation; but if the goods have been sold on credit, then the parties concerned will not receive the amount due to them until the sales of the Joint Account goods have been paid for. If the goods are not sold at balancing time, then the amount of the Joint Account will appear as an asset on the Balance Sheet.

Each Party Dealing With Venture

In other cases, each of the parties interested opens in his own books just merely an account for the Joint Venture, to record such of the transactions as he was directly concerned with. A general statement, prepared from information supplied by the parties, is rendered showing the profit on the joint speculation. Each party will debit the Joint Account, and credit his Profit and Loss Account, with his portion of such profit. There will then remain in one of the party's books a *credit* balance, and in the other party's books a *debit* balance of like amount. Payment of this balance, by the party in debit, to the party in credit will finally close the adventure.

Joint Banking Account

Sometimes a separate Joint Banking Account is opened, and a separate set of books kept for the venture. The transactions are then recorded like ordinary partnership transactions. In such cases, interest on capital is generally brought into account, especially when the parties concerned have contributed unequal amounts.

Worked Example (1)

In this example one of the parties manages the venture on behalf of the other parties.

Bought Goods from Spickle & Co., £1,016 11s. 9d., for a joint speculation with A. Brank and C. Leeve, profits divisible equally. Received Brank's and Leeve's shares of speculation. Paid Expenses and Charges, £86 4s. 7d. Sold Joint Account goods for Cash, £1,382 15s. 4d. Sent cheque to Spickle & Co. Charged, as manager, 5 per cent Commission on Sales. Rendered statements to Brank and Leeve, and enclosed cheques for amounts respectively due to them.

It is desired to record the Venture in the books of the managing partner, and to show the Ledger Accounts in connection with it. These are shown on the next two pages.

Worked Example (2)

This example shows the accounts necessary where each party has some transactions in connection with the venture.

G. Dodds and R. Limpe were partners in the following speculation, Dodds taking three-fifths and Limpe two-fifths of the profits. They guaranteed the subscription at par of 75,000 shares of £1 each in a company, and also all

CONSIGNMENTS AND JOINT VENTURES

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JOURNAL

			Dr.			Cr.		
			£	s.	d.	£	s.	d.
19..	Joint Account To Spickle & Co.		1,016	11	9	1,016	11	9
	For Goods bought for joint speculation with A. Brank and C. Leeve.							
	Joint Account To Commission		69	2	9	69	2	9
	5% on Sale of goods, £1,382 15s. 4d., for joint speculation with Brank and Leeve.							

Dr.

CASH BOOK

Cr.

Date	Receipts	Bank	Date	Payments	Bank
19..		£ s. d.	19..		£ s. d.
	To A. Brank	338 17 3		By Joint Account (Expenses)	86 4 7
	„ C. Leeve	338 17 3		„ Spickle & Co.	1,016 11 9
	„ Joint Account	1,382 15 4		„ A. Brank	409 2 8
				„ C. Leeve	409 2 8

LEDGER

Dr.

SPICKLE & CO.

Cr.

19..	To Cash	£ s. d.	19..	By Joint Account	£ s. d.
		1,016 11 9			1,016 11 9

Dr.

JOINT VENTURE

Cr.

19..	To Spickle & Co.	£ s. d.	19..	By Cash	£ s. d.
	„ Cash (Expenses)	1,016 11 9			1,382 15 4
	„ Commission	86 4 7			
	„ Balance (Profit)—	69 2 9			
	A. Brank, $\frac{1}{3}$	70 5 5			
	C. Leeve, $\frac{1}{3}$	70 5 5			
	Profit and Loss, $\frac{1}{3}$	70 5 5			
		£ 1,382 15 4			£ 1,382 15 4

Dr.

A. BRANK

Cr.

19..	To Cash	£ s. d.	19..	By Cash	£ s. d.
		409 2 8		„ Joint Account (Share of Profit)	338 17 3
					70 5 5
		£ 409 2 8			£ 409 2 8

Dr.		C. LEEVE						Cr.	
19..	To Cash	£	s.	d.	19..	By Cash	£	s.	d.
		409	2	8		„ Joint Account (Share of Profit)	338	17	3
							70	5	5
		£409	2	8			£409	2	8
Dr.		COMMISSION						Cr.	
19..	To Profit and Loss	£	s.	d.	19..	By Joint Account	£	s.	d.
		69	2	9			69	2	9
Dr.		PROFIT AND LOSS ACCOUNT						Cr.	
					19..	By Commission	£	s.	d.
						„ Joint Account (Share of Profit)	69	2	9
							70	5	5

expenses up to allotment, in consideration of the company issuing to them 10,000 other shares fully paid.

Dodds paid the following expenses: Registration and Fees, £100; Advertising, £1,875; Printing, Stationery, and Prospectuses, £185.

Limpe provided cash for: Rent of Office, £30; Secretary, £110; Petty Cash and Sundries, £27 15s. 10d.; Stamps, £86; and Solicitors' Charges, £200.

Applications fell short of the 75,000 by 5,000 shares, and Limpe found the cash in full for this number. The company handed Dodds and Limpe their 10,000 shares. Dodds and Limpe then sold all their shares at 16s. less brokerage of 1d. per share. Limpe received the net proceeds of 6,000 shares, and Dodds the remainder.

It is desired to write up the necessary accounts and to show the settlement between Dodds and Limpe.

Dr.		JOINT SPECULATION						Cr.	
To Dodds—		£	s.	d.	By Dodds—		£	s.	d.
Registration		100	—	—	Proceeds of Sale of 9,000 Shares at 15s. 11d. net		7,162	10	—
Advertising		1,875	—	—	„ Limpe—				
Printing, etc.		185	—	—	Proceeds of Sale of 6,000 Shares at 15s. 11d. net		4,775	—	—
Limpe—									
Rent of Office		30	—	—					
Secretary, etc.		110	—	—					
Petty Cash, etc.		27	15	10					
Stamps		86	—	—					
Solicitors' Fees		200	—	—					
Limpe—									
Cash for Shares		5,000	—	—					
Balance (Profit)—									
Dodds $\frac{3}{8}$	£2,594	4	6						
Limpe $\frac{3}{8}$	£1,729	9	8						
		4,323	14	2					
		£	11,937	10			£	11,937	10

Dr.			G. DODDS			Cr.					
			£	s.	d.				£	s.	d.
To Joint Account—						By Joint Account—					
Proceeds of Sale of 9,000 Shares at						Registration			100	—	—
15s. 11d. net			7,162	10	—	Advertising			1,875	—	—
						Printing, etc.			185	—	—
						„ Joint Account—					
						Share of Profit			2,594	4	6
						„ Balance c/d			2,408	5	6
			<u>£7,162</u>	<u>10</u>	<u>0</u>				<u>£7,162</u>	<u>10</u>	<u>—</u>
To Balance b/d			2,408	5	6						

Dr.		R. LIMPE		Cr.			
	£	s.	d.		£	s.	d.
To Joint Account—				By Joint Account—			
Proceeds of Sale of 6,000 Shares at				Rent of Office	30	—	—
15s. 11d. net	4,775	—	—	Secretary, etc.	110	—	—
„ Balance c/d	2,408	5	6	Petty Cash, etc.	27	15	10
				Stamps	86	—	—
				Solicitors' Fees	200	—	—
				„ Joint Account—			
				Cash for Shares	5,000	—	—
				„ Joint Account—			
				Share of Profit	1,729	9	8
	<u>£7,183</u>	<u>5</u>	<u>6</u>		<u>£7,183</u>	<u>5</u>	<u>6</u>
				By Balance b/d	2,408	5	6

A payment by Dodds, the debtor, to Limpe, the creditor, of £2,408 5s. 6d. will close the speculation.

Worked Example (3)

In some cases, interest is charged on each transaction from the day it occurs to the day of balancing; this interest may be calculated by days or by months, according to the decision of the parties. The following example will show how the interest appears in the accounts.

On 1st February G. Rottel bought Goods value £750 and consigned them to F. Sweale as a joint speculation, profits being divisible equally. On the same date he paid Carriage and Freight, £36 16s. 8d.; Insurance, £14 14s.; and drew on Sweale at 2 m/d for £320 on

account, discounting the bill on the 4th February for £318.

On receipt of the goods on 1st March, Sweale paid Dock Dues and Cartage, £17 4s. 8d.; and Government Duty and Insurance, £31 16s. 3d.

On 31st July, Rottel received an Account Sales showing that on 30th June the Goods had realized gross £1,118 14s. 7d.; and that Sweale's disbursements made on the same date were: Storage, £27 12s. 6d.; Sundries, Brokerage, and Expenses of Sale, £66 8s. 2d. Sweale also enclosed a sight draft for amount due at 31st July.

It is desired to prepare a general statement showing the result of the joint venture; and the accounts in the books of Rottel and Sweale respectively. Interest is to be brought into account at the rate of 5 per cent per annum, and to be calculated in months.

Agency

It can be seen that the commission method enables able business men who have not much capital, to carry on a business that is no way limited in turnover.

Thus, supposing an agent is only able to earn 2½ per cent on his turnover and he has expenses of £10 a week. It would be necessary for him to turn over £400 a week before he begins to make anything for himself.

If the custom of the trade was that goods were paid for by three months' bills, this £400 a week would involve £5,200 or more, a risk no firm would care to venture with a relatively unsubstantial man.

But by the agency method, as long as he sells the goods to men of substance there is no limit to his turnover, because his own financial standing is not involved at all.

Examples of Agents

Not long ago a young man of good ability, but whose total savings were scarcely £100, started business in a great sea port as an importer.

The very day he commenced he was invited to find buyers for a cargo valued at £20,000, then on its way from South America. Within three days he had found a buyer for the whole cargo.

In this case, as in others of such magnitude, the money part of the transaction was carried through by the banks, and all the beginner had to do was to collect his commission.

This case is mentioned because it was the beginning of a very large business in which cargoes were frequently dealt in, though rarely, of course, sold in complete lots.

It sometimes happens that a person or firm carrying on this kind of business may act in a double capacity, being both agent or broker and merchant.

The reason for this is that it is sometimes desirable to clear up each transaction as it comes along.

A firm in Japan consigns £3,000 worth of fancy boxes to a London agent who adopts this double method.

Before the goods arrive the agents have sold £2,500 worth, and here for a while the business stops.

In order to clear up the deal the agents accept the other £500 worth on their own behalf, as they realize that all the big buyers have now bought, but there are smaller buyers who will take the remainder and whose trade will not clash with that already done.

As it would not pay to supply these smaller buyers on a very narrow commission, or as they might require credit, the transactions are carried through in a separate department as ordinary acts of a merchant's business.

Agents and Bills of Exchange

There are also many agents carrying on import trade who perform some of the acts of merchants in the business they do for exporting firms, as a matter of convenience to their principals.

One of these acts is that they accept Bills of Exchange in their own names, and forward them in payment of the goods, but remit such bills, not as the ordinary merchant would do so to pay an account; but as agents, who take their profit in the form of commission.

Thus an agent may be advised that goods to the value of £1,000 are on their way to him, and that the senders have drawn upon him at 60 days from sight for £600.

In doing this they have obtained £600 from their own bankers to help finance the deal, and also provided their agent with sufficient time for him to secure payment for the goods.

The agent, in dealing with the consignment, would secure the best prices obtainable and credit the exporters with the total of this, charging against it the various expenses incurred and his own commission, and remit any balance by bill at sight or cheque.

In such transactions the liability of bad debts would be a liability of the exporter, unless especially arranged otherwise by allowing *del credere* commission (which has already been explained) or other means.

The advantage of the agent being able to accept Bills of Exchange is very great to the exporting house, especially in transactions that do not run into very large sums of money, as it gives the agent and the firm a free hand.

By this means an agent's name may gradually be built up until his name as the acceptor of a bill will stand good in any bank, and yet he will have no liability as a merchant.

To have a reliable agent with a good name for meeting all his "paper" at due dates, is a great advantage to the exporting house, which is thus enabled to carry through its transactions with the minimum of financial strain.

Agency Accounts

An Agency Account should be opened in the Ledgers of the supplying firm. If there is more

than one agency there should be an account for each.

This account should be debited with all goods supplied, and invoices should be duly sent to the agent. The agent also should keep his copy of the Agency Account crediting the parcels of goods as he receives them.

The method of dealing with the contra entries for the goods when actually sold would, of course, entirely depend upon the arrangement on which the agency was held.

This can best be realized by taking three specific cases.

CASE 1

A is agent for B & Co., Ltd. He holds stock and supplies local shopkeepers, sending out B & Co.'s invoices for them and sending daily a list of these debits to be passed through B & Co.'s books and charged in their Ledgers.

These transactions are entered in a separate Day Book and posted to a separate Agency Ledger in which the customers of the agent are treated as customers of the firm.

B & Co. charge the Agency Account with the goods that are supplied, and every month credit this account with the Day Book total of goods sold to customers.

The difference between the two sides of the Agency Account should be a balance equal to the value of the stock held by the agent.

The full selling price is charged for all goods.

CASE 2

Mr. C is agent for D & Co.

He not only sends out invoices, but keeps his own Day Book, Ledger, and Cash Book. His accounts are audited at intervals from head office. His collections of money are lodged daily to the credit of the supplying house, and a weekly cash statement showing collection and commission deducted is duly furnished.

CASE 3

Mr. E is a buying agent of Messrs. F & Co. Every week he sends a credit note for the total of the goods he has sold to his customers, and this total is debited to his personal account and the Agency Account is duly credited with the same amount.

The second of these cases is unusual, but should be noted.

Stock in Connection With Agency Accounts

In all three of them the same auditing problem arises: that is, that value of the stock which has not been transferred to a customer's account and which appears at selling prices.

A good auditor naturally objects to any stock valuation at selling prices; while on the other hand, the best method of working such a business is by charging goods in this way.

A simple way of overcoming any difficulty is to value the stock at selling price in the Agency Account, but for balance sheet purposes to deduct a reasonable percentage from this fictitious value.

From the auditor's point of view, however, there need be no difficulty at all. In order that Agency Ledgers may record goods charged to agents at selling price, it is not necessary either to violate the basic principles of double entry or to depart from the generally accepted methods of correct accounting. The Agency Account should be ruled with double money columns, the first lot to be memorandum columns to show the value of goods at selling price; the second lot of money columns should show the actual financial or real accounting figures. The supplier would then be able, at any time, to view the Agency Account either from his own standpoint or from that of the agent. A similar procedure is followed with large multiple-shop concerns, where numerous branches have their goods invoiced to them always at selling price. And yet, owing to the use of double money column accounts, the head office never has any difficulty in ascertaining the financial position of each branch, or in computing the total value of all its branch stocks for Balance Sheet purposes.

It will be noted that in the first of the above cases the important books are kept by the supplying firm, who, holding the Ledger, are able to deal with the final customer's accounts as they will.

In the second case the agency is practically a self-contained business, and the agent has practically complete control of the customers' Ledger, and his agency must be regarded as a complete whole. He is, to all intents and purposes, a trader being financed by his supplying house, although he gains his income from commission instead of profit.

In the third case the agent is a customer whose profit takes a commission form, and who accepts no risk for unsold stock.

CHAPTER XXIV

ACCOUNTS CURRENT

It sometimes happens in Commerce that two firms have many transactions with each other in which both are customers and both are sellers.

In keeping such accounts where the amounts are not large, it is frequently arranged that cheques shall pass one way or the other at stated intervals, often monthly.

In such cases no notice would be taken of interest, the theory being that, if the amounts did not roughly balance each other and one was continually paying substantial cheques to the other, the interest would form a part of the ordinary trading profit.

Where, however, the items are substantial and the balance constantly passing from one side of the Ledger to another, the fairest way of dealing lies in some method of charging and crediting interest.

This action achieves a double purpose.

It overcomes the necessity of drawing a balance and passing a cheque.

By bringing all the transactions into one Ledger Account, no question can arise in the failure of one firm as to the amount of indebtedness. Where this is not done and there are two separate accounts, it sometimes happens that an enterprising receiver may endeavour to collect the account for goods supplied, and pay a dividend on the account if the defaulting firm is in debt.

What an Account Current Is

An Account Current is a statement, in debtor and creditor form, setting forth in order of date the various transactions that have taken place either with two persons themselves or on their respective accounts, as between (1) principal and agent, or consignor and consignee, or (2) two merchants trading independently, or (3) a banker and his client; interest being generally charged and allowed at an agreed rate.

Party Rendering the Account

The Account Current is rendered by the person last named therein, and is really a copy of the latter's Ledger Account with the person first named. For example, "*Rollert & Co in Account*

Current with G. Simper," means that G. Simper is rendering the Account to Rollert & Co. from his (G. Simper's) point of view, debiting Rollert & Co. with goods sold, or money paid, to them or on their account, and crediting them with goods bought, or money received, from them or on their account.

Method of Calculating the Number of Days

In counting the number of days for the purpose of calculating the interest, care must be taken not to make them *both* inclusive. Only one "end day" or "extreme" must be reckoned; the commencing day of each transaction is omitted, and the day to which the account is made up is included. This procedure follows that laid down in the Bills of Exchange Act for calculating the time of payment for bills, where (Sect. 14, sub-sect. 2) it expressly states that the time is determined "by *excluding* the day from which the time is to begin to run and by *including* the day of payment."

In cases, however, where an Account Current starts with an initial balance, the opening day *must* be counted, as the balance was really the amount due on the previous day, and otherwise a day's interest would be lost. In an Account Current, therefore, it is advisable to bring down a balance as on the last date of the old month instead of as on the first day of the new month, i.e. as 31st Dec. instead of 1st Jan. To make the point quite clear: in cases like "1st Jan. To Balance," 1st Jan. *will* be counted; but in cases like "1st Jan. To Goods," 1st Jan. *will not* be counted.

Again, when dealing with foreign Accounts Current, it must be remembered that many countries, especially on the Continent, reckon 360 days to a year, and also 30 days to *each* month.

Further, in the case of unmatured acceptances, and also in the case of goods invoiced before the time for payment, the days are counted only from the *due date* of payment. Thus, in the example that follows, although a Bill Payable is debited to the Account on the date of acceptance, namely, 3rd March, payment of it will not actually be made until the due date,

6th April; therefore, interest will be calculated only from 6th April to 30th June.

In Example 1 (page 333), the days are reckoned thus—

1st Dr. item	2nd Dr. item	1st Cr. item
Jan. . 30 days	April . 24 days	Feb. . 13 days
Feb. . 28 "	May . 31 "	Mar. . 31 "
Mar. . 31 "	June . 30 "	April . 30 "
April . 30 "		May . 31 "
May . 31 "		June . 30 "
June . 30 "		
<u>180 days</u>	<u>85 days</u>	<u>135 days</u>

Table of Days

The following Table will be found very useful in ascertaining quickly, without the actual process of laborious calculation shown on this page, the exact number of days in any given period of time.

To illustrate the use of the Table, we will suppose that it is required to find (as in Example 1) the number of days from 1st Jan. to 30th June. We look for 1 in the first column, under Jan., and then for 30 under June column, where we find the number 181. Subtracting 1 from 181, we get the number of days as 180.

Again, suppose we had to find the number of days from 15th Feb. to 30th June. Putting our finger on 15 in the first column, and running it along the same line to the Feb. column, we get the number 46; putting our finger on 30 in the first column and running it along the same line to the June column, we get the number 181. Subtracting 46 from 181, we get the number of days as 135.

If the numbers are continued for another year, we shall easily be able to find the number of days from a given date in one year to a given date in the next year. The Table will be as shown on the next page.

TABLE I
SHOWING THE NUMBER OF DAYS BETWEEN ANY TWO PERIODS OF THE YEAR

Nos.	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1	1	32	60	91	121	152	182	213	244	274	305	335
2	2	33	61	92	122	153	183	214	245	275	306	336
3	3	34	62	93	123	154	184	215	246	276	307	337
4	4	35	63	94	124	155	185	216	247	277	308	338
5	5	36	64	95	125	156	186	217	248	278	309	339
6	6	37	65	96	126	157	187	218	249	279	310	340
7	7	38	66	97	127	158	188	219	250	280	311	341
8	8	39	67	98	128	159	189	220	251	281	312	342
9	9	40	68	99	129	160	190	221	252	282	313	343
10	10	41	69	100	130	161	191	222	253	283	314	344
11	11	42	70	101	131	162	192	223	254	284	315	345
12	12	43	71	102	132	163	193	224	255	285	316	346
13	13	44	72	103	133	164	194	225	256	286	317	347
14	14	45	73	104	134	165	195	226	257	287	318	348
15	15	46	74	105	135	166	196	227	258	288	319	349
16	16	47	75	106	136	167	197	228	259	289	320	350
17	17	48	76	107	137	168	198	229	260	290	321	351
18	18	49	77	108	138	169	199	230	261	291	322	352
19	19	50	78	109	139	170	200	231	262	292	323	353
20	20	51	79	110	140	171	201	232	263	293	324	354
21	21	52	80	111	141	172	202	233	264	294	325	355
22	22	53	81	112	142	173	203	234	265	295	326	356
23	23	54	82	113	143	174	204	235	266	296	327	357
24	24	55	83	114	144	175	205	236	267	297	328	358
25	25	56	84	115	145	176	206	237	268	298	329	359
26	26	57	85	116	146	177	207	238	269	299	330	360
27	27	58	86	117	147	178	208	239	270	300	331	361
28	28	59	87	118	148	179	209	240	271	301	332	362
29	29	—	88	119	149	180	210	241	272	302	333	363
30	30	—	89	120	150	181	211	242	273	303	334	364
31	31	—	90	—	151	—	212	243	—	304	—	365

TABLE II
SECOND-YEAR FIGURES

Nos.	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1	366	397	425	456	486	517	547	578	609	639	670	700
2	367	398	426	457	487	518	548	579	610	640	671	701
3	368	399	427	458	488	519	549	580	611	641	672	702
4	369	400	428	459	489	520	550	581	612	642	673	703
5	370	401	429	460	490	521	551	582	613	643	674	704
6	371	402	430	461	491	522	552	583	614	644	675	705
7	372	403	431	462	492	523	553	584	615	645	676	706
8	373	404	432	463	493	524	554	585	616	646	677	707
9	374	405	433	464	494	525	555	586	617	647	678	708
10	375	406	434	465	495	526	556	587	618	648	679	709
11	376	407	435	466	496	527	557	588	619	649	680	710
12	377	408	436	467	497	528	558	589	620	650	681	711
13	378	409	437	468	498	529	559	590	621	651	682	712
14	379	410	438	469	499	530	560	591	622	652	683	713
15	380	411	439	470	500	531	561	592	623	653	684	714
16	381	412	440	471	501	532	562	593	624	654	685	715
17	382	413	441	472	502	533	563	594	625	655	686	716
18	383	414	442	473	503	534	564	595	626	656	687	717
19	384	415	443	474	504	535	565	596	627	657	688	718
20	385	416	444	475	505	536	566	597	628	658	689	719
21	386	417	445	476	506	537	567	598	629	659	690	720
22	387	418	446	477	507	538	568	599	630	660	691	721
23	388	419	447	478	508	539	569	600	631	661	692	722
24	389	420	448	479	509	540	570	601	632	662	693	723
25	390	421	449	480	510	541	571	602	633	663	694	724
26	391	422	450	481	511	542	572	603	634	664	695	725
27	392	423	451	482	512	543	573	604	635	665	696	726
28	393	424	452	483	513	544	574	605	636	666	697	727
29	394	—	453	484	514	545	575	606	637	667	698	728
30	395	—	454	485	515	546	576	607	638	668	699	729
31	396	—	455	—	516	—	577	608	—	669	—	730

To illustrate the use of the second Table, we will suppose that it is desired to find the number of days from 26th July to the following 21st April. On line 21 (Table II), in the April column, we find the figures 476; and on line 26 (Table I), in the July column, we find the figures 207. From 476 we subtract 207, and thus get 269 as the number of days between the two dates.

If the year is a leap year, one more day must be added to make up February's full number, should the month of February be included in the calculation.

Methods of Reckoning Interest

From the point of view of time, interest may be reckoned in various ways, as follows—

1. *Forward*, that is, from the due date of each transaction to the end of the period covered by the Account Current.

2. *Backward*, that is, from the due date of

each transaction to the *époque* or beginning of the period of the Account Current.

3. *By Steps*, that is, on the varying balance of the Account Current, from the date of each transaction to the date of the following transaction. Items which are debited before the due date are *credited* with interest up to the due date; and items which are credited before the due date are *debited* with interest up to the due date. This method is sometimes called the "Hamburg Method."

Methods of Calculating Interest

There are also different methods of calculating the interest itself, and these are explained in the following paragraphs.

Interest Tables Method

1. These tables show the exact amount in sterling on each item for the required number

of days. The interest columns on each side of the Account Current are then added, and the totals extended into the principal columns. Sometimes, however, only the balance of the interest figures is carried into the principal column.

Interest Products Method

2. Interest products are figures obtained by multiplying the number of pounds in each amount by the number of days it has to run for interest. Amounts of ten shillings and over are counted as a full pound; amounts of less than ten shillings are ignored. The product columns are then balanced, and the interest on the balance of products extended into the Account itself. The interest is found by means of the following formula—

$$\text{Interest} = \frac{\text{Balance of Products} \times \text{Rate}}{365 \text{ (or } 360) \times 100}$$

A more convenient way, however, when the number of days in the year is taken as 365, is to multiply the balance of products by *double* the rate of interest, and divide the result by 73,000 (or by 72,000 where the year is always reckoned as 360 days).

Interest Numbers Method

3. Interest numbers are merely a slight variation of the product method. This method is sometimes called the "English method," but it is also extensively used on the Continent.

It consists in dividing each product by 100, and then entering in the Account Current simply the resulting figures, called "Interest Numbers." Approximations have to be made occasionally. If the remainder, after dividing by 100, is decimal 5 or over, the figure in front of it must be increased by 1. Thus, in Example 3, first debit item, 444·6 is entered as 445; and so on with the other items. The number columns are then balanced, and the interest on the balance of numbers entered in the Account Current.

The interest is found by the same formula as for the balance of products, except for the division by 100, which has already been done. In the case of long Accounts Current, however, interest numbers are not altogether reliable, owing to the constant approximation mentioned above.

Third, Tenth, and Tenth Rule

4. The Third, Tenth, and Tenth Rule is based on the mathematical formula—

$$\frac{1}{73,000} = \frac{1 + \frac{1}{3} + (\frac{1}{10} \times \frac{1}{3}) + (\frac{1}{10} \times \frac{1}{10} \times \frac{1}{3})}{100,000}$$

which is arrived at as follows—

$$\frac{1}{73} = \cdot 0137 \text{ nearly} = 1 \cdot 37 \div 100$$

Now

$$1 \cdot 37 = 1 \frac{37}{100} = 1 \frac{111}{300} \text{ (Multiplying top and bottom of fraction by 3).}$$

But

$$\begin{aligned} 1 \frac{111}{300} &= 1 + \frac{100}{300} + \frac{10}{300} + \frac{1}{300} \\ &= 1 + \frac{1}{3} + (\frac{1}{10} \text{ of } \frac{1}{3}) + (\frac{1}{10} \text{ of } \frac{1}{10} \text{ of } \frac{1}{3}) \end{aligned}$$

This result shows that, to divide by 73, we must add to the dividend one-third of itself, then one-tenth of this third, and then one-tenth of this tenth of a third, and then divide by 100. To divide by 73,000, the result must be further divided by 1,000.

As this method is merely an approximation, it will be necessary to work to *five* places of decimals in order to get the answer correct to *three* places of decimals, i.e. to the nearest farthing.

It can be shown that the result is actually $\frac{1}{100000}$ th in excess of the true result. We have taken $1 \div 73$ as equal to $\cdot 0137$; therefore, $\cdot 0137 \times 73$ should equal 1. As a matter of fact it equals 1·0001, thus showing that the result is actually $\frac{1}{100000}$ th greater than the true result; and this fractional part must accordingly be deducted in order to get an *accurate* result.

Process of Working

There should now be no difficulty in understanding the method of working, which may be set out thus—

1. Multiply the principal in pounds and (decimal of a pound, if necessary) by the number of days, and get a product.

2. Multiply this first product by twice the rate of interest, and rule off this second product

3. Divide this second product by 100,000, and keep result as first line of addition.

4. Add to this result one-third of it, then one-tenth of this third, then one-tenth of this latter result.

5. From the addition sum, subtract $\frac{1}{100000}$ th, and the final result is the required interest.

By way of example, let us suppose that it is required to find, by this method, the interest

on £4,375 6s. 11d. for 117 days at $4\frac{1}{2}$ per cent per annum—

4,375.346 × 117 . . . =	511,915.482
Multiply by . . . =	4,607,239.338
4,607,239.338 ÷ 100,000 =	46.07239
Add $\frac{1}{2}$. . . =	15.35746
Add $\frac{1}{10}$ (= $\frac{1}{10}$ of $\frac{1}{2}$) . . . =	1.53574
Add $\frac{1}{10}$ (= $\frac{1}{10}$ of $\frac{1}{10}$ of $\frac{1}{2}$) =	.15357
	<hr/>
Deduct $\frac{1}{100,000}$ th . . . =	63.11916
	.00631
	<hr/>
Interest . . . =	63.11285
	<hr/>

The required interest is £63.113 approximately, which is £63 2s. 3d.

The error is, with large calculations, taken as $\frac{1}{10,000}$ th. This means 1d. in every 10,000 pence (£41.13s. 4d.), or roughly $\frac{1}{4}$ d. in every £10; and this is the deduction to make in small calculations.

Interest Tables

For calculating the interest, in sterling, on any amount, at the rate of 5 per cent per annum, the Table on the following page will be found very useful.

It will be noted that the decimals recur in successive periods of a fifth of a year. The last three or four figures repeat themselves every 73 days, the second decimal figure being increased by 1 in each fresh period. Thus—

Interest for	10 days	=	.001369, and so on
"	"	83	" = .011369 "
"	"	156	" = .021369 "
"	"	229	" = .031369 "
"	"	302	" = .041369 "

To illustrate the use of the Table, let us refer to Example 1, where it is required to find the interest on £246 17s. 6d. for 180 days at 5 per cent per annum. The interest on £1 for 180 days, as per the Table, is £.024657. Multiplying this by 247, we get £6.090279, or £6.090 to three places, which is £6 1s. 9d., thus agreeing with the amount shown in the Account Current.

It also follows from this Table that, in the other examples, we can ascertain the Interest on the balance of products by multiplying the balance by .000137, instead of dividing the balance by 7,300 ($\frac{10}{73000}$).

The interest on £1 for 1 day is .000137, which in mathematics is the reciprocal of $\frac{1}{7300}$. Thus, in Example 2, $22,875 \times \text{£.000137} = \text{£3.133875}$, or £3.134 to three places, which is £3 2s. 8d., and thus agrees with the amount shown in the Account Current.

Varying Rates of Interest

Sometimes different rates of interest are charged in the same Account Current. The rates may be changed from time to time according to the state of the money market. It may also happen that the rate of interest on the debit items differs from the rate allowed on the credit items. A banker, for instance, never allows as high a rate of interest as he himself charges. Or, it may be that there is one rate for Cash and another rate for Goods.

In Accounts Current between merchants there are often good reasons for the terms, as regards interest, not being reciprocal, especially where the respective places of business are in different countries. Where, in an Account Current, the rate of interest on the debits does differ from the rate on the credits, the products must be multiplied by double their respective rates of interest, before being balanced. Interest on this balance is then found and entered in the usual way. An illustration of this is given in Example 6.

Balance of Capital or Principal

Where interest is reckoned by the *époque* method, i.e. from the beginning of the Account Current to the due date of each transaction, care must be taken to ascertain the balance of Capital or Principal, that is, the difference between the totals of the two money columns of the Account Current. Interest on this amount must be worked out for the number of days over which the account extends.

The interest must be placed on the opposite side to that on which the balance of Principal falls; that is, if the balance is a Cr. balance, the interest products will be entered on the *debit* side; and if the balance is a Dr. balance, the interest products will be entered on the *credit* side.

Side on Which Interest Falls

When the days are reckoned by the forward method, i.e. from the due date of each transaction to the end of the period of the Account Current, the interest falls on the *opposite* side to the balance of products or numbers; but when reckoned by the backward or *époque* method, i.e. from the due date of each transaction to the beginning of the period of the Account Current, the interest falls on the *same* side as the balance of products. The great advantage of the *époque* method is that it avoids *Red Ink* Interest.

BOOK-KEEPING AND OFFICE WORK

TABLE
SHOWING THE INTEREST ON £1 AT 5 PER CENT FOR ANY PERIOD OF DAYS IN A YEAR

Days	Interest	Days	Interest	Days	Interest	Days	Interest	Days	Interest	Days	Interest
1	•000137	62	•008493	123	•016849	184	•025205	245	•033561	306	•041917
2	•000274	63	•008630	124	•016986	185	•025342	246	•033698	307	•042054
3	•000411	64	•008767	125	•017123	186	•025479	247	•033835	308	•042191
4	•000548	65	•008904	126	•017260	187	•025616	248	•033972	309	•042328
5	•000685	66	•009041	127	•017397	188	•025753	249	•034109	310	•042465
6	•000822	67	•009178	128	•017534	189	•025890	250	•034246	311	•042602
7	•000959	68	•009315	129	•017671	190	•026027	251	•034383	312	•042739
8	•001095	69	•009452	130	•017808	191	•026164	252	•034520	313	•042876
9	•001232	70	•009589	131	•017945	192	•026301	253	•034657	314	•043013
10	•001369	71	•009726	132	•018082	193	•026438	254	•034794	315	•043150
11	•001506	72	•009863	133	•018219	194	•026575	255	•034931	316	•043287
12	•001643	73	•010000	134	•018356	195	•026712	256	•035068	317	•043424
13	•001780	74	•010137	135	•018493	196	•026849	257	•035205	318	•043561
14	•001917	75	•010274	136	•018630	197	•026986	258	•035342	319	•043698
15	•002054	76	•010411	137	•018767	198	•027123	259	•035479	320	•043835
16	•002191	77	•010548	138	•018904	199	•027260	260	•035616	321	•043972
17	•002328	78	•010685	139	•019041	200	•027397	261	•035753	322	•044109
18	•002465	79	•010822	140	•019178	201	•027534	262	•035890	323	•044246
19	•002602	80	•010959	141	•019315	202	•027671	263	•036027	324	•044383
20	•002739	81	•011095	142	•019452	203	•027808	264	•036164	325	•044520
21	•002876	82	•011232	143	•019589	204	•027945	265	•036301	326	•044657
22	•003013	83	•011369	144	•019726	205	•028082	266	•036438	327	•044794
23	•003150	84	•011506	145	•019863	206	•028219	267	•036575	328	•044931
24	•003287	85	•011643	146	•020000	207	•028356	268	•036712	329	•045068
25	•003424	86	•011780	147	•020137	208	•028493	269	•036849	330	•045205
26	•003561	87	•011917	148	•020274	209	•028630	270	•036986	331	•045342
27	•003698	88	•012054	149	•020411	210	•028767	271	•037123	332	•045479
28	•003835	89	•012191	150	•020548	211	•028904	272	•037260	333	•045616
29	•003972	90	•012328	151	•020685	212	•029041	273	•037397	334	•045753
30	•004109	91	•012465	152	•020822	213	•029178	274	•037534	335	•045890
31	•004246	92	•012602	153	•020959	214	•029315	275	•037671	336	•046027
32	•004383	93	•012739	154	•021095	215	•029452	276	•037808	337	•046164
33	•004520	94	•012876	155	•021232	216	•029589	277	•037945	338	•046301
34	•004657	95	•013013	156	•021369	217	•029726	278	•038082	339	•046438
35	•004794	96	•013150	157	•021506	218	•029863	279	•038219	340	•046575
36	•004931	97	•013287	158	•021643	219	•030000	280	•038356	341	•046712
37	•005068	98	•013424	159	•021780	220	•030137	281	•038493	342	•046849
38	•005205	99	•013561	160	•021917	221	•030274	282	•038630	343	•046986
39	•005342	100	•013698	161	•022054	222	•030411	283	•038767	344	•047123
40	•005479	101	•013835	162	•022191	223	•030548	284	•038904	345	•047260
41	•005616	102	•013972	163	•022328	224	•030685	285	•039041	346	•047397
42	•005753	103	•014109	164	•022465	225	•030822	286	•039178	347	•047534
43	•005890	104	•014246	165	•022602	226	•030959	287	•039315	348	•047671
44	•006027	105	•014383	166	•022739	227	•031095	288	•039452	349	•047808
45	•006164	106	•014520	167	•022876	228	•031232	289	•039589	350	•047945
46	•006301	107	•014657	168	•023013	229	•031369	290	•039726	351	•048082
47	•006438	108	•014794	169	•023150	230	•031506	291	•039863	352	•048219
48	•006575	109	•014931	170	•023287	231	•031643	292	•040000	353	•048356
49	•006712	110	•015068	171	•023424	232	•031780	293	•040137	354	•048493
50	•006849	111	•015205	172	•023561	233	•031917	294	•040274	355	•048630
51	•006986	112	•015342	173	•023698	234	•032054	295	•040411	356	•048767
52	•007123	113	•015479	174	•023835	235	•032191	296	•040548	357	•048904
53	•007260	114	•015616	175	•023972	236	•032328	297	•040685	358	•049041
54	•007397	115	•015753	176	•024109	237	•032465	298	•040822	359	•049178
55	•007534	116	•015890	177	•024246	238	•032602	299	•040959	360	•049315
56	•007671	117	•016027	178	•024383	239	•032739	300	•041095	361	•049452
57	•007808	118	•016164	179	•024520	240	•032876	301	•041232	362	•049589
58	•007945	119	•016301	180	•024657	241	•033013	302	•041369	363	•049726
59	•008082	120	•016438	181	•024794	242	•033150	303	•041506	364	•049863
60	•008219	121	•016575	182	•024931	243	•033287	304	•041643	365	•050000
61	•008356	122	•016712	183	•025068	244	•033424	305	•041780		

Red Ink Interest

When an Account Current is balanced, and contains items which are not due at the date of such balancing, there arises a case of what is called *Red Ink Interest*. The interest for the period in advance of the date to which the Account Current is made up must be inserted in *red ink* (shown in print by means of heavy type), and must also be entered in ordinary ink on the opposite side of the Account Current; or if, as in some cases, there are red ink figures on both sides of the Account Current, then only the balance of the red ink figures need be entered in ordinary ink on the proper side, debit or credit, as the case may be.

The interest having been thus previously allowed for, or charged (i.e. by transfer to the opposite side), the red ink figures themselves must be ignored when balancing the product columns.

When interest is reckoned by the *époque* method, the Account Current will not contain any red ink interest, because interest is calculated from the due date of each transaction back to the beginning of the period of the Account Current, i.e. the *époque*. A case of red ink interest could, therefore, only arise, if there were introduced into the Account Current an old item having a due date anterior to the *époque*. Red Ink Interest is calculated from the date of closing the Account Current up to the due date of the item or items prematurely included.

Calculations Involving a Leap Year

In the case of leap year, that is, every year whose two end numbers are divisible by four, except the year of the century, which is never a

leap year, the number of days in February must be reckoned as 29 instead of 28. For the sake of convenience, however, the total number of days in the year is still regarded as 365, not 366, though the latter figure is certainly the more logically correct for calculations.

Worked Examples

The following transactions took place between Rollerts & Co. and G. Simper from 1st Jan. to 30th June, 19. —

- Jan. 1. Sold goods to Rollerts & Co.,
£246 17s. 6d.
Feb. 15. Remittance received from Rollerts & Co.,
£85 16s. 3d.
Mar. 2. Bought goods from Rollerts & Co.,
£257 18s. 5d.
3. Accepted Rollerts & Co.'s draft for
£126 5s. 8d., at 1 m/d.
April 11. Cash paid to Rollerts & Co.,
£110.
30. Goods invoiced to Rollerts & Co.,
£134 11s. 9d., due end of May.
May 11. Bought goods from Rollerts & Co.,
£92 3s. 10d.
31. Sold goods to Rollerts & Co.,
£150 4s. 2d.
June 15. Bought goods from Rollerts & Co.,
£164 14s. 8d.

It is desired to make out an Account Current (in various ways) to be rendered by G. Simper at 30th June, taking interest into account at the rate of 5 per cent per annum.

Example 1

Interest calculated on each item separately from the due date of each transaction to end of period of Account.

Dr.			ROLLERTS & CO. IN ACCOUNT CURRENT WITH G. SIMPER										Cr.				
Date	Particulars	Days	Interest			Amount			Date	Particulars	Days	Interest			Amount		
19..			£	s	d	£	s	d	19..			£	s	d	£	s	d
Jan. 1	To Goods	180	6	1	9	246	17	6	Feb. 15	By Cash	135	1	11	9	85	16	3
Mar. 3	„ Bill Payable, due 6th April	85	1	9	5	126	5	8	Mar. 2	„ Goods	120	4	4	10	257	18	5
April 11	„ Cash	80	1	4	1	110	—	—	May 11	„ Goods	50	12	8	92	3	10	
30	„ Goods due 31st May	30	11	1	1	134	11	9	June 15	„ Goods	15	6	9	164	14	8	
May 31	„ Goods	30	12	4	—	150	4	2	30	„ Interest				6	16	—	
June 30	„ Interest					9	18	8	30	„ Balance c/d					170	8	7
						£777	17	9							£777	17	9
June 30	To Balance b/d					170	8	7									
	π																
	E. & O.E.																
											</						

LONDON,
30th June, 19..
G. SIMPER.

Example 2

Same as No. 1, but Interest calculated by balance of products.

Dr. ROLLERTS & CO. IN ACCOUNT CURRENT WITH G. SIMPER

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
19..		£ s d			19..		£ s d		
Jan. 1	To Goods	246 17 6	180	44,460	Feb. 15	By Cash	85 16 3	135	11,610
Mar. 3	" Bill Payable, due 6th April	126 5 8	85	10,710	Mar. 2	" Goods	257 18 5	120	30,960
April 11	" Cash	110 — —	80	8,800	May 11	" Goods	92 3 10	50	4,600
30	" Goods due 31st May . .	134 11 9	30	4,050	June 15	" Goods	164 14 8	15	2,475
May 31	" Goods	150 4 2	30	4,500	30	" Balance of Products			22,875
June 30	" Interest on Balance of Products— $\frac{22,875 \times 10}{73,000}$	3 2 8			30	" Balance c/d	170 8 7		
		£771 1 9		72,520			£771 1 9		72,520
June 30	To Balance b/d	170 8 7							

The net result of all the Interest calculations is thus equal to 1 day's Interest on £22,875 at 5 per cent.

Example 3

Same as No. 2, but Interest calculated by balance of Interest Numbers.

Dr. ROLLERTS & CO. IN ACCOUNT CURRENT WITH G. SIMPER*Cr.*

Date	Particulars	Amount	Days	Interest Numbers	Date	Particulars	Amount	Days	Interest Numbers
19..		£ s d			19..		£ s d		
Jan. 1	To Goods	246 17 6	180	445	Feb. 15	By Cash	85 16 3	135	116
Mar. 3	" Bill Payable, due 6th April	126 5 8	85	107	Mar. 2	" Goods	257 18 5	120	310
April 11	" Cash	110 — —	80	88	May 11	" Goods	92 3 10	50	46
30	" Goods due 31st May . .	134 11 9	30	47	June 15	" Goods	164 14 8	15	25
May 31	" Goods	150 4 2	30	45	30	" Balance of Interest Numbers			229
June 30	" Interest on Balance of Numbers— $\frac{229 \times 10}{730}$	3 2 8			30	" Balance c/d	170 8 7		
		£771 1 9		726			£771 1 9		726
June 30	To Balance b/d	170 8 7							

Example 4Same as No. 2, but Interest calculated by *Époque* Method.*Dr.* ROLLERTS & CO. IN ACCOUNT CURRENT WITH G. SIMPER*Cr.*

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
19..		£ s d			19..		£ s d		
Jan. 1	To Goods	246 17 6		<i>Époque</i>	Feb. 15	By Cash	85 16 3	45	3,870
Mar. 3	" Bill Payable, due 6th April	126 5 8	95	11,970	Mar. 2	" Goods	257 18 5	60	15,480
April 11	" Cash	110 — —	100	11,000	May 11	" Goods	92 3 10	130	11,960
30	" Goods due 31st May . .	134 11 9	150	20,250	June 15	" Goods	164 14 8	165	27,225
May 31	" Goods	150 4 2	150	22,500	30	" Balance of Principal— <i>Dr.</i> £167 5s. 11d.			
June 30	" Balance of Products			22,875	30	" Balance c/d	170 8 7	180	30,060
30	" Interest on Balance of Products— $\frac{22,875 \times 10}{73,000}$	3 2 8							
		£771 1 9		88,595			£771 1 9		88,595
June 30	To Balance b/d	170 8 7							

Example 5

Interest calculated on the varying balance of the Account from one transaction to the next.

Dr. ROLLERTS & CO. IN ACCOUNT CURRENT WITH G. SIMPER *Cr.*

Date	Particulars	Dr. or Cr.	Amount			Due Dates	Days	Interest Numbers	
								Dr.	Cr.
19. .			£	s.	d.				
Jan. 1	To Goods	Dr.	246	17	6				
Feb. 15	By Cash	Cr.	85	16	3		45	11,115	
Mar. 2	Goods	Dr.	161	1	3		15	2,415	
		Cr.	257	18	5				
3	To Bill Payable	Cr.	96	17	2		1		97
		Dr.	126	5	8	6th April	34		4,284
April 11	„ Cash	Dr.	29	8	6		39	1,131	
		Dr.	110	—	—				
30	„ Goods	Dr.	139	8	6		19	2,641	
		Dr.	134	11	9	31st May	31		4,185
May 11	By Goods	Dr.	274	—	3		11	3,014	
		Cr.	92	3	10				
31	To Goods	Dr.	181	16	5		20	3,640	
		Dr.	150	4	2				
June 15	By Goods	Dr.	332	—	7		15	4,980	
		Cr.	164	14	8				
30	To Interest on Balance of Products— $\frac{22875 \times 10}{73000}$	Dr.	167	5	11		15	2,505	
		Dr.	3	2	8	Balance of Products			22,875
		Dr.	£170	8	7			31,441	31,441

NOTE. Interest numbers may be used with this method, but, in the case of long accounts, are not so reliable.

Example 6

Interest calculated by balance of Products, but $4\frac{1}{2}$ per cent charged on debit items, and 5 per cent allowed on credit items.

Dr. ROLLERTS & CO. IN ACCOUNT CURRENT WITH G. SIMPER *Cr.*

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
19. .		£	s.	d.	19. .		£	s.	d.
Jan. 1	To Goods	246	17	6	Feb. 15	By Cash	85	16	3
Mar. 3	„ Bill Payable, due 6th April	126	5	8	Mar. 2	„ Goods	257	18	5
April 11	„ Cash	110	—	80	May 11	„ Goods	92	3	10
30	„ Goods due 31st May	134	11	9	June 15	„ Goods	164	14	8
May 31	„ Goods	150	4	2					
				30					
				72,520					49,645
				9					10
June 30	„ Interest on Balance of Products— $\frac{156230}{73000}$			652,680	30	„ Balance of Products			496,450
					30	„ Balance c/d	169	8	156,230
				652,680					652,680
June 30	To Balance b/d	169	8	9					